FINANCIAL TIMES

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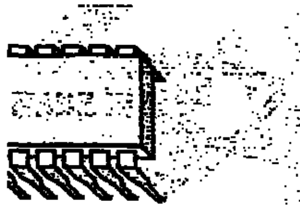
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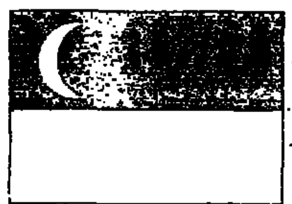
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Demand for inquiry into leak of French espionage report

French foreign minister Alain Juppé demanded an inquiry into how a report into an alleged CIA spy ring was leaked. His demand exposed divisions within France's centre-right government and appeared to bear out concerns that the report on the alleged industrial espionage was leaked to divert attention from a phone-tapping scandal and enhance the nationalist credentials of prime minister Edouard Balladur. Page 16; Spy's new target, Page 2; Editorial Comment, Page 15

Italy cuts spending and raises taxes: Italian prime minister Lamberto Dini unveiled emergency tax increases and spending cuts to cover a L20,000bn ($12.3bn) shortfall in the 1995 budget. Page 16

Cost cutting lifts Shell: The Royal Dutch Shell group reaped the benefits of cost-cutting and a buoyant chemicals market to produce annual earnings on a replacement cost basis 28 per cent higher than last year at £1.1bn ($1.74bn). Page 17; Lex, Page 16; Cost cutting moves, Page 23

Brussels rejects WTO compromise: The European Commission rejected suggestions that the three declared candidates for the job of director general of the World Trade Organisation should stand down in favour of an outsider to break the succession deadlock. Page 16

Pentagon bars Lucas contracts: Lucas Industries, the UK aerospace and automotive company, is to be barred from winning new contracts with the US Department of Defence after its conviction for falsifying records of equipment it supplied to the US Navy. Page 8

Tokyo pressed to ease imports: Japan came under pressure from the US and the European Union to dispose of regulations which hinder imports. Page 7

British Gas turns in £1.24bn: British Gas, under fire for falling service levels and rising executive salaries, reported pre-tax profits of £1.24bn ($1.97bn) for 1994. Page 22; Lex, Page 16

Black says City of London 'has not seen the last of us'

Conrad Black (left), chairman of The Telegraph, yesterday denied that the reason he was planning to buy out the newspaper group's minority shareholders was that he had been "blackballed" by London's financial centre. He said his relations with most people there were "quite good" and that he was not turning his back on them for ever. "It may not please all of your readers, but I don't feel the City has necessarily seen the last of us," he said. Hollinger, Mr Black's Canadian-based master company which owns 59 per cent of The Telegraph, plans to buy out the other shareholders as part of wider reorganisation of Mr Black's newspaper empire. Page 17; Lex, Page 16

ICI looks for global recovery: The recovery in the world's chemicals industries has only just begun, ICI chief executive Sir Ronald Hampel said, reporting annual pre-tax profits up 84 per cent to £514m. Page 23

Trafalgar raises bid for Northern: UK conglomerate Trafalgar House slightly sweetened its £1.2bn hostile takeover bid for Northern Electric, the British regional electricity distributor, but warned its own shareholders to expect a loss in the first half of the year. Page 17; Lex, Page 22

Japan plans new telecoms format: UK telecoms group Cable and Wireless is linking with privatised Japanese utility NTT tp provide a new form of portable telephone service. Page 7

Yeltsin promises to reform army: Russian president Boris Yeltsin vowed to reform the army after conceding that the Chechen campaign had exposed its limitations. Page 3

Countryside 'key to Vietnam's growth': Vietnam must tackle rural poverty if it is to secure sustainable economic growth, the World Bank said. Page 6

Decline of family life 'exaggerated': The demise of the traditional family is "grossly exaggerated", but policy adjustments are required to deal with changes such as lone parenthood, the UK-based Joseph Rowntree Foundation said. Page 8

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4,015.11	(+42.06)
NASDAQ Composite	793.73	(+5.80)
Europe and Far East		
CAC40	1,827.01	(22.64)
DAX	819.41	(-0.80)
FT-SE 100	3,049.3	(+29.8)
Nikkei	17,830.0	(-276.63)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.853%
Long Bond	101 7/16
Yield	7.486%

OTHER RATES

UK: 3-mo interbank	6¾%	(same)
UK: 10 yr Gilt	99 3/32	(+55)
France: 10 yr OAT	96.71	(+0.73)
Germany: 10 yr Bund	100.04	(+0.58)
Japan: 10 yr JGB	97.971	(+0.556)

NORTH SEA OIL (Argus)

Brent 15-day (Apr)	$16.88	(16.95)

GOLD

New York: Comex	$381.9	(381.5)
London: close	$379.9	(378.95)

DOLLAR

New York: lunchtime		
£	1.593	
DM	1.4785	
FFr	5.143	
SFr	1.2515	
Y	96.875	
London:		
£	1.5915	(1.5873)
DM	1.4727	(1.4679)
FFr	5.1425	(5.1345)
SFr	1.2526	(1.2445)
Y	96.835	(96.975)

STERLING

DM	2.3437	(2.3299)
Tokyo close:		Y 97.15

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11		
Belgium	BFr70	Hungary	Ft185	Neth	Fl 4.25	Singapore	S$4.30		
Bulgaria	Lw100.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	KSL60		
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00		
Czech Rp	CZK55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta225		
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17		
Egypt	E£5.00	Japan	Y500	Philippines	Peso60	Switz	SFr3.60		
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 42,000	Syria	S£50.00		
Finland	FM15	Kuwait	Fils.625	Portugal (mland)	Es230	Tunisia	Din1.500		
France	FFr10.50	Lebanon	US$1.50			Turkey	L40,000		
Germany	DM3.90	Lux	LFr70			UAE	Dh12.00		

Market seizes on Greenspan suggestion of a drop in US interest rates

Dow passes record 4,000 level

By Philip Coggan in London and Lisa Bransten in New York

The Dow Jones Industrial Average powered through the 4,000 level for the first time yesterday, as share traders speculated that US short-term interest rates might be at, or close to, their peak for this year.

The market seized on comments made by Mr Alan Greenspan, chairman of the US Federal Reserve, to the Senate banking committee on Wednesday, which he reiterated yesterday. He suggested that the US economy may be slowing to a sustainable growth rate, with inflation under control, and held out the possibility of lower interest rates.

US bond and equity markets took heart from the news, with the 30-year Treasury bond rising about a point in early New York trading, bringing the yield down to just below 7.5 per cent for the first time since September.

The Dow, which had reached record highs without topping 4,000 level last week, finally broke through it at around 10am New York time. By 1pm, it was trading at 4,014.43, up 41 points on the day.

In January 1994, the Dow seemed headed for 4,000 when it hit 3,978. But it fell back as the Fed raised interest rates seven times over the past 12 months in an attempt to slow the growth of the US economy and head off inflation.

The latest stock market rally, which saw the Dow rise from below 3,700 in December, was spurred by a number of official statistics, in particular employment data, which suggested the economy was slowing.

A slower rate of growth would remove the need for the Fed to raise interest rates substantially. The market's expectation for the level of three-month US interest rates in March, has fallen from 7.4 per cent in December to 6.25 per cent yesterday.

The surge in US bonds and shares gave a modest boost to the dollar yesterday, which closed in London at DM1.4727 from DM1.4679 on Wednesday.

Yesterday's strong performance by US financial markets cheered investors in Europe and Latin America. In Paris, the CAC-40 stock market index was 1.25 per cent higher, while in Frankfurt, the DAX had risen 1.44 per cent in after-hours trading. London's FT-SE 100 index rose 29.8 points, or just under 1 per cent, to close at 3,049.3.

European government bonds were also higher, with UK 10-year

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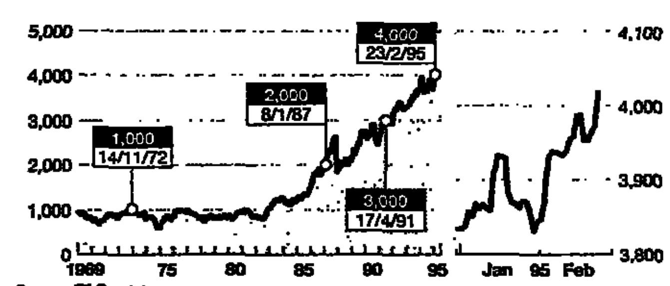
Wall Street traders cheer as the Dow Jones breaches the 4,000 level for the first time on hopes that US rates may have peaked Picture: Associated Press

Dow Jones Industrial Average



Source: FT Graphite

Sony to press on with rival video disc format

By Michiyo Nakamoto in Tokyo

Sony, the Japanese electronics group, announced yesterday that it planned to go it alone with the manufacture of a new generation of multimedia discs rather than join forces with a rival group of makers backing a separate format developed by Toshiba.

The decision leaves the industry with the prospect of another bruising battle between competing and incompatible technical standards – reminiscent of the "video wars" of the 1980s in which Sony unsuccessfully pitted its Betamax format for video tapes against the more widely supported VHS format backed by its Japanese competitor, Matsushita.

This time, the war will be waged over rival technical formats for digital video discs. These compact discs are expected to replace pre-recorded video tapes as the predominant form of packaged video entertainment.

Both camps say they are aiming to launch products based on their respective standards in the latter half of next year. Consumer electronics companies have been pouring research and development energies into the new discs in the hopes of setting the industry standard.

Last month, it appeared that the two sides might try to reach a compromise and agree on a unified standard after Matsushita, the world's largest consumer electronics maker and owner of the MCA entertainment group, cast its vote for the Toshiba standard.

However, Sony said yesterday it had studied the standard proposed by the Toshiba camp, which comprises seven consumer electronics companies, and concluded that its own format, which is also supported by Philips, the Dutch group, provides "the best option for optical media for the coming multimedia age".

The format proposed by Sony is for a single-sided disc with two versions: one that is single-layered and can play up to 135 minutes of video, which is sufficient for most Hollywood films, and another version that will be double-layered and will be capable of playing up to four and a half hours of video.

Toshiba's standard calls for using both sides of a disc to store up to 270 minutes of video. The Toshiba camp is confident that its system provides better quality video and therefore has the support of Hollywood studios.

Sony, however, believes that its standard will be more acceptable to consumers for its low cost and compatibility with conventional CDs. Manufacturing the new discs will require only minor modifications to existing CD factories and the players will be able to play the discs without interruption.

In contrast Toshiba's standard will require two optical pickups to read the contents or will necessitate turning over the disc.

UK Tories face defeat in Labour debate on Europe

By Robert Peston and John Kampfner in London

The British government last night faced the prospect of an embarrassing parliamentary defeat next week on a motion from the opposition Labour party on European Union policy.

Labour yesterday attempted to take advantage of the fury of the Ulster Unionists at government proposals for a Northern Ireland settlement by tabling a motion which would give the Unionists an opportunity to vote with the opposition.

The Unionists – Protestants living in Northern Ireland – are angry because they believe the government's plans favour Catholic nationalists seeking a union between Northern Ireland and Ireland.

The Labour motion, to be debated on Wednesday, says: "This House does not support HMG policy towards the European Union and does not believe it promotes the interest of the British people".

In a highly unusual decision, Mr John Major, the prime minister, decided to open the debate so that he can make his most public articulation to date of the government's EU policy. Though he was applauded by the government whips for leading from the front, his action raises the stakes in the event of a government defeat.

The government has been relying on Unionist support since losing its majority in the House of Commons after withdrawing the whip at the end of last year from nine MPs – all Eurosceptics, or members opposed to government policy on closer EU integration.

A government defeat would be embarrassing, though not devastating. Immediately afterwards, the government would probably propose a vote of confidence – which it would expect to win, since the whipless rebels would probably not relish a general election at the moment.

Conservative party officials hope they can avoid defeat by persuading a few of the nine rebels to vote against the motion.

However, several rebels said last night they would either abstain or vote with Labour. "I don't see how any of us can support the government," said one.

Ulster Unionist MPs, in a private meeting yesterday at Westminster, agreed to make a final decision on whether to oppose the government a few hours before next Wednesday's vote. There were strong signs, however, that they would use the opportunity to undermine Mr Major's leadership.

Mr Ken Maginnis, the Ulster Unionist security spokesman, said: "We never, ever did rule out the possibility of voting against the government. We will be looking very carefully when we see the wording of that motion and deciding how we should vote."

Unionists are reserving their definitive position on the framework document for a Northern Ireland political settlement pending a meeting today of the party's executive in Belfast.

There was little sign yesterday that government efforts to pacify unionist feeling had made any inroads.

There was more bad news for Mr Major last night when a MORI poll for the Times newspaper gave Labour 58 per cent support, up from 56 per cent, compared with 24 per cent for the Tories.

Hints of unionist realism, Page 14

AT&T pulls out of plan to buy stake in Bull

By John Ridding in Paris

AT&T, the US telecoms giant, has broken off talks with the French government over plans to take a stake in Groupe Bull, the computer manufacturer which is being privatised.

The US group and Quadral, its French partner, said yesterday they had taken the decision "in the absence of any possibility that France would open its telecoms market to free competition before 1998".

The withdrawal represents a blow to AT&T's expansion strategy in Europe. It may also fuel tensions between the US and France over telecoms liberalisation. France, like other members of the European Union, is committed to opening its telecoms market to competition in 1998. But it is under growing pressure from international telecoms companies, and from domestic communications and cable television operators, to speed up liberalisation.

AT&T has already filed a complaint against plans by France Télécom, the state-owned telecoms operator, to take a 20 per cent stake in Sprint of the US in partnership with Deutsche Telekom of Germany. Industry observers said the collapse of AT&T's plans to invest in Bull removed a possible compromise deal and may prompt stronger opposition to the French group's investment in Sprint.

French officials said the decision by AT&T and Quadral would not jeopardise Bull's privatisation. They pointed out several other candidates were in line to take a stake in the company and allow the government to reduce its 76 per cent holding to a minority.

Under procedures for the group's sale five candidates, each seeking to take a stake of more than 10 per cent in Bull, were selected for a shortlist this year.

With the departure of AT&T and Quadral, the remaining bidders are thought to include NEC of Japan, Motorola and Sequent of the US, and IPC of Singapore. Binding offers for their proposals were due by Wednesday, but

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CONTENTS

Economic intelligence to help with national competitiveness is being used to justify secret agency budgets

Post-cold war spies turn to commercial targets

By Andrew Jack in Paris, Bruce Clark in London and George Graham in Washington

The diplomatic flare-up between France and the US this week highlights a shift in the work of the contemporary spy away from cultivation of the cold war towards the pursuit of commercial targets.

According to the allegations reported in the French newspaper Le Monde, the US was involved in gathering information on the French negotiating position during talks within the General Agreement on Tariffs and Trade and also on the audiovisual and telecommunications industries. It is in these areas, along with aerospace and defence, that France and the US are in greatest competition. The US intelligence agencies have been debating the issue of so-called "economic intelligence" for years, in part, according to rival agencies, to try to justify maintaining their budgets now that the cold war no longer places such demands on their services.

"Intelligence agencies are trying to justify large budgets by saying they can make their countries more competitive," said Mr Peter Schweizer, author of a book on espionage between allied countries.

The US Central Intelligence Agency has traditionally drawn a line between helping US companies with information on foreign market trends and actually spying on foreign companies. Under the Bush administration, such direct industrial espionage was banned, but Mr James Woolsey, the CIA chief until his recent resignation, described economic intelligence as "the hottest current topic in intelligence policy".

Senior US officials say the CIA has passed on information about bribery by foreign companies competing against US businesses for overseas contracts, either to the US companies or to the governments of the country giving the contract. But, they say, CIA officials have also intervened directly to "level the playing field".

In one case last year the US exerted pressure on the Brazilian government to award a satellite surveillance contract to a US consortium after it produced evidence of bribery by a French competitor. The CIA also briefed US aerospace companies in 1993 when it found a French government document spelling out plans to steal technology secrets in the US. One of the companies, Hughes Aircraft, withdrew from the Paris air show in protest.

US companies often complain that they are put at a disadvantage by the Foreign Corrupt Practices Act, which makes bribing an overseas official an offence punishable in the US. The State Department has been pushing for an anti-bribery code to be adopted by other leading industrial countries. Mr Schweizer, who is also director of the James Madison Institute, a US think-tank, said damage to the US economy from industrial espionage was estimated by government officials at tens of billions of dollars a year.

He said there was an important difference in attitudes to this activity between the Anglo-Saxon world and continental Europe. Mr Schweizer estimated that France devoted 30-35 per cent of its intelligence assets to economic and technological information-gathering.

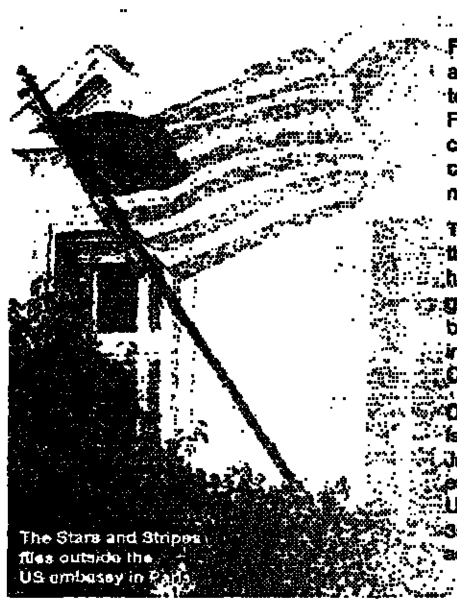
What makes the latest incident so unusual is that while the expulsion of diplomats from hostile nations in the past has frequently been heralded by publicity, tit-for-tat removals of those suspected of spying between allies is normally handled far more discreetly.

It is particularly embarrassing at a time when relations between the two countries had been improving under the Clinton administration, symbolised recently by the US president's speech after the D-Day celebrations to the French national assembly last summer, and comments by Mr Alain Juppé, the French foreign minister, last month about the central role of the two countries in Nato.

However, Mr Philip Gordon, a senior research fellow at the International Institute for Strategic Studies, said the row would not reverse the improvement in Franco-American relations achieved over the past two years. "Both countries know this sort of thing goes on," he said. "All the issues that France and the US squabble about are on hold."

Mr Michel Jaoul, a former businessman and vice chairman of the Franco-American Foundation, a policy think-tank in Paris, said: "I think there was definitely a mistake on the French side to publish this information. But it is not going to create any problems. It might embarrass some diplomats, but they are paid for that."

Industrial espionage: France and the US swap allegations



The Stars and Stripes flies outside the US embassy in Paris

France accuses the US of secretly gathering information about a wide range of industries, including telecommunications and audiovisual electronics. The French also suggest that US agents have been collecting information involving differences between the countries over world trade, and have sought to recruit members of prime minister Edouard Balladur's staff.

The US considers France among the worst offenders in the world. US legislators and government agencies have claimed over the past three years that French government agencies had targeted more than 70 US big corporations and leading financial institutions, including Boeing, IBM, NCR, Texas Instruments and Corning Glass.

Other countries singled out in the US include Japan, Israel and South Korea. The CIA has estimated 80% of Japan's intelligence work was in commercial espionage, with most of the effort directed against the US. Israel was reported to have used over ten years 35 full-time agents in the US. South Korea was accused of trying to recruit federal civil servants.

Source: news agencies

French foreign minister Alain Juppé speaking in Paris yesterday

'I am scandalised that a delicate problem was dragged out into the open. I want the government to carry out an inquiry to throw full light on the origin of the leaks'

American spying overshadows French bugging

Andrew Jack reports on how the affair might affect the presidential race

The way in which this week's spy scandal erupted in France says at least as much about the country's internal political situation in the run-up to the spring presidential elections as it does about espionage and diplomacy after the end of the Cold War.

The demand for the removal of five US citizens from France has certainly generated ample publicity. The question is whether those who are implicated in the story will be content with the way in which it unfurls over the next few days and weeks.

There seemed to be little doubt yesterday about the broad facts of the case. What was less certain was the method by which Le Monde, the afternoon daily which first reported it, got hold of its information. While the paper was keeping quiet about its sources yesterday, many commentators suggested that the article was so detailed that it could only have come through a leak authorised at a very senior government level.

The most cynical theory in circulation was that those sympathetic to Mr Edouard Balladur, the prime minister and presidential contender, had leaked the information to distract attention from the scrutiny currently surrounding Mr Charles Pasqua, the interior minister and his closest ally, in connection with an allegedly unauthorised phone-tapping scandal.

Certainly, Le Monde's article was riddled with references to Mr Pasqua in a way that made him appear tough in acting against supposed US spies. It also seemed strange that the story appeared now, although much of the alleged activity had taken place many months ago.

Rival politicians and other critics wasted no time in raising just this prospect of a smokescreen, suggesting the diversionary tactic might not be as effective as planned. Equally, the divisions within the ruling centre-right coalition were highlighted as Mr Alain Juppé, the foreign minister and supporter of Mr Jacques Chirac's candidacy for the presidency, called for an investigation into the source of the press leaks. Even aside from the phone-tapping developments of the last few days, Mr Balladur has been suffering from a fall in popularity.

A significant international news story such as the spy scandal could present him with the chance to appear to be acting as a strong leader on an important issue – uniting France at a time when he has been criticised for weakness and lack of charisma.

Certainly while officials were initially reluctant to comment on the story, by the end of Wednesday afternoon they had publicly confirmed their request to the US embassy. They clearly thought that abandoning normal diplomatic discretion was worth the risk.

The danger that Mr Balladur now runs is that the US does not follow his wishes and withdraw its staff from France, or that the story in any case starts to damage Franco-US relations regardless of what action the authorities finally take.

On the other hand, as one commentator argued yesterday, Mr Balladur's Gaullist supporters may have relatively little to lose in incurring the wrath of the US.

Bundesbank and Bonn split on Emu

By David Marsh
European Editor

Differences are emerging between the German finance ministry and the independent Bundesbank on preparations for next year's vital European Union conference to review the Maastricht treaty.

The finance ministry believes Bundesbank statements backing far-reaching steps towards European political union next year will hamper the delicate negotiations towards the Maastricht goal of economic and monetary union (Emu) because they will be opposed by other member states and are controversial even in Germany.

Bonn needs real progress at the conference on political union, which is generally supported by the German electorate, because this may prove crucial in improving German support for Emu, which is not.

Mr Hans Tietmeyer, the Bundesbank president, has sharpened the tone of the central bank's long-standing calls for political union as an essential accompaniment to Emu. He has recently urged "credible and irreversible" intensification of political links next year, suggesting an inadequately prepared Emu could lead to inflation or collapse.

Another senior central bank official warned recently against using monetary union as an "instrument" to forge greater political union.

Both the finance ministry and the Bundesbank emphasise that, before Emu is set up, prospective members must fulfil precisely the Maastricht economic performance criteria, particularly on public sector deficits and debt. However, the finance ministry has taken issue with calls by the Bundesbank for a far-reaching political union capable of ensuring that Emu members would permanently and continuously fulfil the criteria.

This, according to the finance ministry, is tantamount to suggesting that the EU agrees a centralised pooling of economic and budgetary policies – a goal to which both the Bundesbank and the central bank are opposed.

The finance ministry wants to ensure recent Bundesbank statements are not interpreted as support for ideas traditionally put forward from Paris, favouring centralised EU economic decision-making.

One Bundesbank official said this week that the central bank rejected any idea of a European "super-state" to run economic policy, but he warned against "over-estimating" the possibility that a monetary union by itself would bring about the necessary commonality in other economic areas.

However, the finance ministry believes that permanent convergence in economic policies will be ensured by a disciplined approach to the selection of Emu members before monetary union starts.

The divergences between Bonn and the Bundesbank coincide with a general scaling down of expectations of progress towards political union at next year's conference. According to a senior European Commission official, small-scale changes expected next year on powers for the European parliament, as well as in immigration and defence, will "not be a revolutionary package".

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Two-tier EU farm subsidies backed

By James Harding in London

A two-tier system of agricultural subsidies, with lower levels of support going to farmers in central and eastern Europe, will more than halve the projected costs of EU enlargement, according to Mr René Steichen, former EU agriculture commissioner.

Mr Steichen estimates that admitting east European countries should cost the farm budget no more than Ecu6.5bn (£5.2bn). Central and east European countries "should get the guarantee of a certain income, but one that is much lower than the west. The two prices should converge progressively to the same level when the accession period is over," he said. Such transitional mechanisms could keep the cost as low as Ecu5bn, he said.

By contrast, the UK government expects the accession of just the Czech and Slovak republics, Hungary and Poland to add £11bn to the budget, and recent academic reports have estimated the cost at up to Ecu32bn.

Speaking at a conference on the outlook for European farming in London which finished yesterday, Mr Steichen rubbished the "experts" who "play with figures just for the sake of dramatising this topic". His comments were intended to damp down enthusiasm for far-reaching CAP reform before further enlargement.

Mr Steichen said he opposed those people who "tend to use enlargement as a pretext for destabilising the reformed CAP and creating artificial uncertainty among our rural population".

At the same meeting, Earl Howe, the parliamentary secretary to the UK Ministry of Agriculture, said that in the light of EU enlargement eastwards, "radical reform of the CAP is inescapable". He proposed the abolition of supply controls, the system for setting aside land, the reduction of price supports to world levels and equal competition between European farmers.

Earl Howe said that applying CAP subsidies to the new members could increase output and force the EU to breach its subsidised exports allowance under the Uruguay Round.

Pressure grows for Claes

By Emma Tucker in Brussels and Bruce Clark in London

Pressure yesterday mounted on Mr Willy Claes, the Belgian secretary-general of Nato, to clarify what he knew about a series of illegal payments made to Flemish politicians in the late 1980s.

As Mr Claes struggled to stand aloof from the allegations of bribery, attention also turned to Mr Frank Vandenbroucke, the Belgian foreign minister, who admitted knowing about plans by Agusta, the Italian defence manufacturer, to offer bribes to Socialist politicians in order to secure a government contract for 46 helicopters.

The scandal, which has already prompted the resignation of three Belgian ministers, has caused acute embarrassment to Mr Claes, who left Belgian politics to assume the Nato post last autumn. Mr Claes, economic affairs minister at the time Agusta sold the helicopters to the Belgian army, originally said on Wednesday he had no knowledge of any offers by Agusta to his Flemish Socialist party.

"I wish to formally confirm not only that I am not involved in the whole affair but also that I have never, from no one or nothing and nowhere, heard or received any suggestion or proposal whatsoever to set up any such thing," he said. However, following a confession by Mr Vandenbroucke that he recalled a discussion of the payments, Mr Claes changed his mind and said that Mr Etienne Mangé, former treasurer of the Socialist party, had discussed the matter with him in 1989.

"We had a meeting... about I do not remember what. And there Mangé told us in passing that he had heard that the Italians were going about dangling money," he said.

The Belgian press has reported that the police want to question Mr Claes but to do this his diplomatic immunity would have to be lifted.

Among western governments, attitudes to Mr Claes were yesterday torn between willingness to stand by him as long as possible for the sake of Nato's credibility, and fear that the accident-prone Belgian politician could become a liability.

Irritation with Mr Claes is already running high among many western diplomats because of his over hasty suggestion this month that Islamic fundamentalism could be as big a threat to the Nato alliance as communism had been.

There is a danger that the corruption scandal will add to doubts among US officials and European conservatives, who were barely able to conceal their reservations about Mr Claes. The source of most of the revelations about the alleged bribes is Mr Mangé, who has told investigators Agusta paid BFr50m (£1m) to the Socialist party to secure the helicopter contract.

Yesterday, Mr Louis Tobback, the president of the Socialist party, said that he also recalled a meeting in 1991 where Mr Mangé had asked to see himself, Mr Claes and Mr Vandenbroucke separately.

"Etienne Mangé told us that someone had come to see him and had declared that he wanted to make a donation to the SP on behalf of Agusta," said Mr Tobback. "Frank Vandenbroucke thinks he remembers Mr Mangé talking of an amount. Me, I remember that he talked of a percentage. In any case, with a contract worth BFr8bn it was a monstrous sum."

Yesterday Het Laatste Nieuws, a Flemish daily newspaper, reported that Mr Claes had last week offered to drop a legal action he began against the paper last year after the paper alleged Agusta had tried to bribe him.

Nato and North Africa, page 5

Belgian newspapers say that police want to question Mr Claes

Delors speaks up for an EU integration led by core group

By Lionel Barber in Brussels

Mr Jacques Delors, former president of the European Commission, yesterday hinted broadly that he supports an advance guard of EU member states, under Franco-German leadership, moving ahead to monetary and political union.

In testimony to the European parliament, Mr Delors suggested that creating a core group of committed integrationists was the most acceptable approach to dealing with the inevitable enlargement of the EU to central and eastern Europe, most likely around the turn of the century.

But in a message to his native France, Mr Delors warned that it would be foolish to take monetary union for granted, particularly in the light of high unemployment. "Nothing is automatic, nothing is set," he said, "it's not like a Club Med holiday with a fixed destination."

Mr Delors, who stepped down as Commission president last month after 10 years at the helm, also warned that public opinion would not accept a monetary union in which the future European central bank controlled all the policy levers. He called for a strong political counterweight to the bank, preferably through a new "European economic government".

Mr Delors's task yesterday was to identify the problems of organising a European Union which is likely to expand to 25 or 30 members over the next decade – the principal task of the 1996 intergovernmental conference to review the Maastricht treaty.

Mr Delors said four options were possible: a Europe in which all willing countries would follow common goals, with those unable eligible for transitional arrangements; a Europe *à la carte* in which countries could pick and choose areas of integration; a division of Europe between those favouring tight integration and those favouring looser rules, though with co-operation between the two; and a Europe of an advance guard, with other countries eligible to join later.

Mr Delors said he favoured the last option because it was not an exclusive "hard core" of the kind promoted by the ruling German CDU-CSU coalition parties last year. "It would have psychological advantages and a synergistic effect," he said, "it would not be about first and second divisions."

Mr Delors' speech marks an evolution in thinking ahead of the 1996 IGC. Previously he has been reluctant to abandon the idea of including all member states in co-operative arrangements. Though not final, his thinking appears driven by the necessity of inventing more flexible forms of integration to cope with enlargement to the east, and his view that the UK is likely to apply the brakes to further political and economic integration.

Public pension debate rages in Spain

By Tom Burns in Madrid

A visit to Madrid by a Chilean economist, remarks by the leading domestic banker to his shareholders, and a document drawn up at a closed door meeting of members of parliament have sparked a furious political economy debate in Spain.

The argument centres on the viability of Spain's public pension scheme, which is financed out of payroll taxes on a pay-as-you-go basis.

Public pension schemes are showing strains in all developed societies and the Spanish system, which is among the most generous in the EU, is being severely undermined by sharply decreased fertility, fast increasing longevity, and a small working population with the highest proportion of long term unemployed in the EU.

The debate has been fuelled by Mr José Piñera, the architect of a reform in Chile that effectively replaced a state pension scheme with a mandatory personal savings plans organised by the private sector. A minister during General Augusto Pinochet's dictatorship and lately an adviser to the Argentine government and to Italy's former prime minister Mr Silvio Berlusconi, Harvard-trained Mr Piñera was invited to Spain by the the Circulo de Empresarios, a top domestic business club.

His theme was immediately taken up Mr Emilio Botín, chairman of Banco Santander, the biggest domestic bank. Mr Botín told the bank's annual general meeting at the weekend that a complementary private pension scheme should be urgently introduced because Spain's social security system placed an intolerable burden on the budget deficit.

Mr Botín's remarks have created a public storm. Mr Adolfo Jiménez, the secretary general of the the Social Security office, called them "surprising and profoundly negative". Hostile critics said Mr Botín, whose banking group runs the fourth largest pension fund in Chile, was greedily seeking increased business.

Among those irritated by talk of the "Chile experience" were the 13 members of an all-party parliamentary commission who have spent the past year discussing an overhaul of the social security system. They had been drawing up their concluding document in the city of Toledo at the time that Mr Piñera was talking to rapt audiences of Madrid businessmen.

Demography and growing social spending are 'time bombs at the heart of the social security system'

The politicians have agreed on what has come to be known as the "Toledo pact", a consensus that enshrines the existing payroll-financed public scheme as the "essential pillar" of domestic pensions and which calls on future governments to maintain the present policy of indexing state pensions to inflation.

Although the politicians leave the door open to additional voluntary savings plans, they reject, on "social grounds" and as "technically not viable" any attempt to replace the pay-as-you-go system. The document states that a "public, fair, balanced and equitable" state pension scheme is guaranteed in Spain.

Experts, however, say that the politicians have ducked the issue because they have a shared interest in keeping the explosive pensions issue off the political agenda. The governing Socialist party is held to have rallied the support of Spain's 7m pensioners in the 1993 general elections by accusing the opposition conservatives of planning to cut old-age benefits.

Writing in the latest issue of the Circulo de Empresarios' bulletin, economist Mr Lorenzo Bernaldo de Quirós argues that Spain's demographic trends and the projected growth of social spending amount to "time bombs ticking away at the heart of public social security system". Financing the present system will require "a strong tax rise and/or a substantial cut in pension benefits".

The debate has only just begun. Mr Piñera will return to Spain in June and his supporters are planning a national tour of public lectures for him.

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NEWS: EUROPE

EUROPEAN NEWS DIGEST

Opel to recall over 1m cars

Opel, the German car manufacturer owned by General Motors of the US, is recalling immediately more than 1m cars because of problems with airbags and fuel tank caps. But it said the recall costs of its popular Astra model and some others would not have a large effect on profits. In Germany, the recall will affect about 800,000 Astras produced since 1992, which could have a problem with a metal plate in the fuel tank cap. The company also said it was recalling at least 550,000 cars in Germany (including 260,000 Astras) built since 1993 to check the connection on an electrical plug with the airbags. Vauxhall is to recall 600,000 vehicles in the UK. Opel will issue recalls in other countries where the vehicles are sold.

PS Report, a German automobile industry newsletter, said the fuel cap problem recall could affect over 2.3m vehicles worldwide. The recall is the largest in the company's history. *Andrew Fisher, Frankfurt*

IG Metall strike to start today

IG Metall, the German engineering trade union, said today's strike in Bavaria – the first in the industry for 11 years – will start at the early shifts of 22 plants, including several operated by such big employers as AEG, Siemens and MAN. Around 11,000 union members will come out in the first phase of the strike at factories where 24,000 people are employed. In the second wave from March 1, a further 12 plants will be affected.

Klaus Zwickel, IG Metall leader, announces the start of strikes at a press conference. EPA

From March 6, seven more would be added. IG Metall called the strike after a strong Bavarian vote for industrial action. This follows the lack of a reply from employers to its 6 per cent wage claim. Mr Heinrich von Pierer, Siemens' chairman, warned the strike could soon escalate into a bitter confrontation. *Andrew Fisher, Frankfurt*

UK-France ferries disrupted

Cross-channel ferry services between France and the UK were disrupted yesterday by a 48-hour strike by the French national seamen's union, protesting against the hiring of low-paid Polish crews. Ferry links to Corsica and other French islands were also halted, but a threatened blockade of the Channel Tunnel did not materialise. The strike was called by the seamen's three main labour unions, CGT, CFDT and CGC, in protest at the use of non-EU crews by the small UK freight company Meridian ferries on the Folkestone-Boulogne route. The mainly Polish seamen are paid less than half the minimum wage for French sailors. The strike forced Brittany Ferries to cancel all its crossings for two days until Saturday, affecting 7,000 passengers. Ferry companies employing UK crews, such as P&O, were unaffected. Stena Sealink, which has both UK and French crews, operated a reduced service.

■ French navy police yesterday held Greenpeace protesters trying to block a UK vessel preparing to ship nuclear material. The ship, the Pacific Pintail, later left the French port of Cherbourg for Japan. *Reuter*

Hungary raises rates

Hungary's central bank yesterday temporarily raised three key repo rates in an attempt to stop heavy speculation against the forint and denied it was planning a large devaluation of the currency. The bank raised its overnight active rate to 35 per cent and the one week active rate to 33 per cent, both up from 31.25 per cent, and the one week reverse rate to 30 per cent, from 28 per cent. The forint closed yesterday at 114.35/45 to the US dollar. *Virginia Marsh, Budapest*

Swedish budget deficit to fall

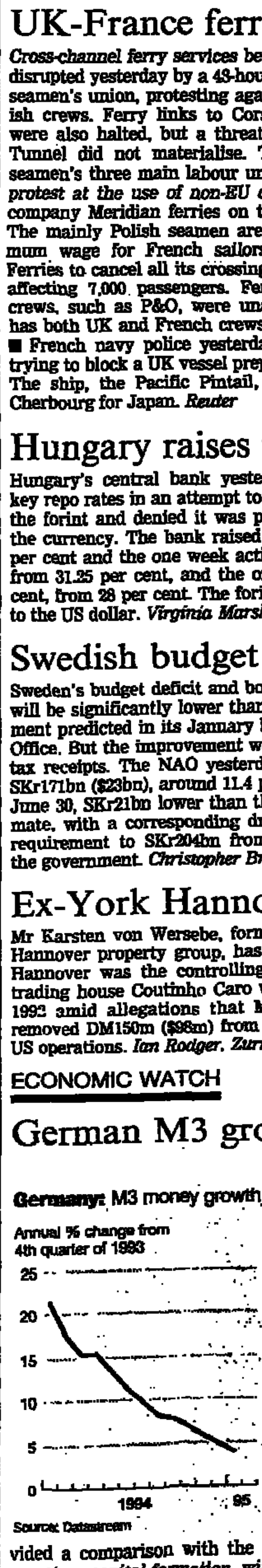
Sweden's budget deficit and borrowing requirement in 1994-95 will be significantly lower than the Social Democratic government predicted in its January budget, said the National Audit Office. But the improvement was down to a "one-off" surge in tax receipts. The NAO yesterday forecast a budget deficit of SKr171bn ($23bn), around 11.4 per cent of GDP, for the year to June 30, SKr21bn lower than the government's SKr192bn estimate, with a corresponding drop in the country's borrowing requirement to SKr204bn from the SKr229bn anticipated by the government. *Christopher Brown-Humes, Stockholm*

Ex-York Hannover chief held

Mr Karsten von Wersebe, former head of the collapsed York Hannover property group, has been arrested in Zurich. York Hannover was the controlling shareholder in the Hamburg trading house Coutinho Caro which went into bankruptcy in 1992 amid allegations that Mr von Wersebe had illegally removed DM150m ($98m) from it to prop up York Hannover's US operations. *Ian Rodger, Zurich*

ECONOMIC WATCH

German M3 growth declines



Germany's money supply growth declined more steeply than expected in January. Compared with the fourth quarter of 1993, M3 grew in January by an annualised 4 per cent against a rate of 4.9 per cent in December. This represents an annualised 5.8 per cent decline against the fourth quarter of 1994, the Bundesbank said. But economists said the central bank would concentrate on price and industrial production data to assess when to raise interest rates. It would also keep a close eye on the wage round. The Bundesbank provided a comparison with the last quarter of 1993. Increased monetary capital formation, with funds moving to longer term investments, was mostly responsible for the improvement, along with capital outflows abroad.

In addition, the bank gave a figure for extended M3, including flows into money markets permitted since last summer. This rose at an annualised rate of 0.5 per cent over the second half of 1994 against a 1.5 per cent decline for normal M3. Bank lending slowed, but was still strong with a 7 per cent annualised increase in January. *Andrew Fisher, Frankfurt.*

■ Spain's industrial output rose 7.1 per cent last year, the first annual rise since 1989. This compares with a 4.7 per cent fall in 1993. Motor industry output was up 22.7 per cent, shipbuilding down 73 per cent.

■ Norway's February unemployment fell 0.2 per cent to a provisional rate of 5.3 per cent. The total number unemployed was 112,800, down from 117,300 in January.

Yeltsin 'tough and firm' on army reforms

By John Thornhill in Moscow

Mr Boris Yeltsin, Russia's president, yesterday vowed to reform the army after conceding that the Chechen campaign had exposed its limitations and sapped its morale.

At a wreath-laying ceremony to remember Russian soldiers who had died in defence of the motherland, Mr Yeltsin said: "The army is starting to disintegrate a bit. We have to be tough and firm so military people believe that there will be reforms." Mr Yeltsin did not spell out what needed to be done but promised the government would find extra money to pay for any reforms.

The Russian army, which is this year planning extensive celebrations to mark the 50th anniversary of the defeat of Nazism, has recently received unprecedented criticism in parliament and even from within its own ranks. The Russian media have suggested that some sections of the army have been riddled with corruption. The army's brutal conduct of the 11-week-old Chechen campaign has provoked condemnation from abroad.

General Pavel Grachev, the defence minister, yesterday repeated his standard complaint that the army had been starved of money and appealed for more funding. "If there is no money there will be no reforms at all," he said.

But he added that the defence ministry would review all aspects of the army's performance in Chechnya at a meeting on March 1, starting with the conduct of the senior commanders.

However, several leading army officers have suggested that the army's problems run far deeper than a shortage of money. General Alexander Lebed, commander of Russia's 14th army who is rumoured to be considering standing in next year's presidential elections, has fiercely criticised the army's high command - and Mr Yeltsin - for the conduct of the war.

The leaders of the four branches of the Russian armed forces yesterday called for the creation of a strong professional army capable of meeting the country's current defence needs. They said this would entail a thorough review of strategic theory, an upgrading of military hardware, a reorganisation of administration and an overhaul of military education and training.

● President Yeltsin yesterday vetoed a draft law which would have more than doubled the minimum wage to Rbs54,100. Mr Yeltsin said the draft, approved by both houses of parliament, would have cost an additional Rbs159,000bn (£23.1bn). The proposals would have severely undermined this year's restrictive budget which is a precondition for Moscow receiving a $6.25bn International Monetary Fund standby loan

Parliamentary vote set to test Papandreou

By Kerin Hope in Athens

Greece's elderly Socialist prime minister, Mr Andreas Papandreou, faces a fresh test of his fading authority today as parliament holds the first of three votes to elect a new head of state.

Mr Papandreou is under attack by dissidents in his governing Panhellenic Socialist Movement, not just for proposing a conservative former cabinet minister, Mr Costis Stefanopoulos, as the Socialists' candidate for president, but for failing to consult deputies and the party's central committee over the choice.

Moreover, grassroots Socialists are annoyed by Mr Papandreou's willingness to form an alliance with Political Spring, the rightwing nationalist party, to back Mr Stefanopoulos, in order to secure the extra votes needed to elect a president and avoid an early general election.

Mr Stefanopoulos is not likely to capture the two-thirds majority needed in the 300-member house to win election today.

Some Pasok deputies may show their disapproval by abstaining on the first and second rounds of the vote, but analysts predict that Mr Stefanopoulos will scrape in on the third vote on March 8, when only 180 votes are required.

Mr Papandreou calculates that after four general elections in the past six years, the lack of enthusiasm for an early poll among both politicians and voters will outweigh Pasok deputies' thoughts of rebellion.

Mr Stefanopoulos, 69, a centre-right politician from the Socialist stronghold of Achaia in southern Greece, failed in two attempts to become leader of Greece's conservative party in the 1980s. He broke away to form a splinter party, Democratic Renewal, which collapsed last year after failing to win any seats in the European parliament elections.

Despite – or because of – his unsuccessful political career, Mr Stefanopoulos is popular with politicians from all parties.

He could also attract votes from the conservative New Democracy party following the Socialists' decision last month to drop corruption charges against Mr Constantine Mitsotakis, the former New Democracy prime minister, who now leads an influential group of backbenchers.

Yet Mr Papandreou, increasingly isolated by failing health, may soon regret his decision to stay on as prime minister rather than take over himself the untaxing and mostly ceremonial job of president from Mr Constantine Karamanlis, the veteran conservative statesman.

The presidential alliance with Political Spring has already dealt a blow to the government over its campaign to ensure Cyprus's accession to the European Union.

Concern that Mr Antonis Samaras, the Political Spring leader who takes a hard line on relations with Turkey, would withdraw his support for Mr Stefanopoulos's candidacy is blamed for Greece's decision last week to veto the EU package linking approval of a customs union with Turkey with the timetable for Cyprus's entry.

The rift is also deepening between Pasok's pro-European faction, led by Mr Theodore Pangalos, the outspoken former European affairs minister who keeps a distance from Mr Papandreou, and the populists under Mr Akis Tsochatzopoulos, the Pasok secretary general who is still one of the prime minister's closest associates.

Mr Papandreou's continuing refusal to appoint a deputy premier points to his fears of being unseated by a potential successor.

However there is speculation that he will signal his retirement later this year by offering the deputy premier's job to Mr Carolos Papoulias, the foreign minister and a close personal friend.

Mexico seeks new price and wages pact

By Ted Bardacke in Mexico City

The Mexican government will renegotiate its wage and price agreement with labour unions and business leaders as early as this Sunday, according to government officials.

The agreement, known as the pacto, will include a revision of the government's economic projections for 1995 but is unlikely to define a new exchange rate regime for the Mexican peso, say the officials.

In the negotiations the government is expected to present an annual inflation projection of 30 per cent, up from the government's first revised rate of 19 per cent, and zero economic growth for the year, down from 1.5 per cent.

Even the new assumptions are viewed as optimistic in some quarters.

It is also likely to lower its suggested target for the peso from 4.5 to the dollar to between 5 and 5.5.

With these fresh projections, the big uncertainty going into the negotiations for the pacto will be what wage demands labour leaders present. In January organised labour agreed to limit wage increases to 7 per cent, but that was when inflation was projected to come in under 20 per cent for the year.

The head of Mexico's official labour federation, Mr Fidel Velazquez, said that labour had still not decided what it would ask for, but that "we are sure that wages will rise" above their current 7 per cent limit.

Analysts and some government officials expect labour leaders to ask for an additional and immediate 5-10 per cent wage rise, as well as a promise to renegotiate further increases should the government be unable to meets its newly revised target.

President Ernesto Zedillo signalled his willingness to renegotiate the pacto but warned that its new measures would be strict: "We have to reinforce and consolidate the economic adjustment programme so as to avoid a major financial bankruptcy that would provoke massive unemployment and severely damage the development possibilities for an entire generations of Mexicans."

Zedillo says new measures will be strict to "avoid bankruptcy"

In the new pacto the government's new target for the peso will be between 5 and 5.5 to the dollar, according to Mr Miguel Mancera, the head of the central bank.

In an interview in the local newspaper El Financiero, Mr Mancera also indicated that the peso would continue to float "for the time being."

The value of the Mexican peso responded well to Mr Mancera's comments, a sign that the central bank's strategy of raising interest rates to strengthen the currency was beginning to take effect.

At midday the peso was trading at 5.665 to the dollar, stronger than Wednesday's close of 5.915. The Mexican stock market fell as the peso appreciated, with the main IPC index down 3.21 per cent in midday trading.

However, the high interest rate policy has come under severe criticism from both the banking and corporate sectors which are being squeezed heavily by the high cost of money.

In response, the central bank is expected to announce formally, in an adjunct to the new pacto, the indexation of loans and deposits in order to set real interest rates and a scheme to capitalise banks who are buckling under a growing amount of overdue loans and a falling capital base.

Sidelined Congress fights back over bail-out

By George Graham in Washington

The Clinton administration may have sidestepped a congressional roadblock by using the Treasury's Exchange Stabilisation Fund to finance $20bn of aid to Mexico, but it has not entirely escaped hostile fire from Congress.

Both Republicans and Democrats have complained that although the president may use the fund on his own authority, the aid to Mexico is unprecedented in its size and duration.

Congressional leaders have slapped down attempts to block the Mexican aid package, and it now appears extremely unlikely that any legislative step will be taken that would undo the deal signed this week by Mr Robert Rubin, the US treasury secretary, and Mr Guillermo Ortiz, the Mexican finance minister.

Nevertheless, efforts are under way to tie the administration's hands in future. Resentment of the Mexican bail-out is so widespread in Congress that some officials believe new restrictions on the use of the Exchange Stabilisation Fund are likely.

Senator Alfonse D'Amato, the New York Republican who chairs the Senate banking committee, said this week that he remained "strongly opposed to the president's unilateral decision to use $20bn from our Exchange Stabilisation Fund to bail out a mismanaged Mexican government and global speculators."

He said he would hold committee hearings next month, and promised to "find whether the administration's inaction or silence during 1994 helped precipitate this crisis."

Senator D'Amato and Senator Connie Mack, chairman of Congress's joint economic committee, have introduced a bill that would require the Treasury to file monthly reports on the use of US money and on Mexico's economic policy.

Congresswoman Marcy Kaptur, one of the leading Democratic critics of the Mexican rescue package, has urged passage of an even tougher bill strictly defining the use of the Exchange Stabilisation Fund and narrowly prescribing the administration's authority over it, "so that it will no longer be able to use the fund as a form of back door foreign aid."

Any use of ESF money that goes beyond strict involvement in foreign exchange support operations should be appropriated by Congress, as for any normal spending.

Nevertheless administration officials appear confident that Congress will not derail the rescue package.

Argentina may ask for $410m loans from IMF

By David Pilling in Buenos Aires

Argentina may ask the International Monetary Fund to grant it $410m in loans that were turned down by Buenos Aires last September, Mr Domingo Cavallo, the economy minister has admitted.

However, he denied reports that Argentina would seek fresh funding from the IMF, other than the previously agreed loans, to see it through severe financial problems provoked by the Mexican crisis. His denial followed speculation that Argentina might try to agree a deal for up to $2bn.

Instead, Buenos Aires would ask the IMF to audit its economic performance on a quarterly basis, as part of an "enhanced monitoring" programme designed to restore investor confidence in Argentina's economy.

Regular audits by the IMF, expected to start in April, would "transmit to the financial community that Argentina's programme is serious," Mr Cavallo said.

Cavallo: playing down loan

In order to release the $410m the Fund would need to issue a waiver, exonerating Argentina for failing to meet fiscal targets last year.

In September, Argentina turned down the tranches, saying its financial standing was such that it could easily raise the money on international capital markets and had no need of soft loans. However, its decision coincided with a sharp deterioration in its fiscal accounts.

Mr Cavallo tried to play down the about-turn on the loans, saying that reaching an IMF monitoring agreement was far more important. "For the moment, getting resources from the IMF is not relevant," he said.

An IMF monitoring accord might release up to $1bn in loans being negotiated with the Inter-American Development Bank and the World Bank. This cash would be used to help push through privatisations of banks and utilities in several near-bankrupt provinces.

Argentina's country-risk premium has shot up since the Mexican financial crisis, making it far more costly to raise cash needed to pay off maturing debt. Concern has been expressed over the banking sector, which is now undergoing a rapid, though so far fairly ordered, contraction. There has also been scepticism about the treasury's ability to meet ambitious 1995 fiscal targets.

Bermuda freedom disquiet grows

By Canute James in Kingston

Disquiet is growing in Bermuda's banking and financial services sector over the impact of a planned debate by legislators on the country's political status.

Bankers fear the debate, which could lead to a referendum on independence from Britain, may polarise party politics on the islands. They fear damage to Bermuda's image of stability, the basis of its international financial services sector and tourism, the main pillars of the economy.

The territory is one of the world's leading offshore financial centres and home to a growing insurance market.

There has been pressure on the ruling United Bermuda Party to put independence on the legislative agenda, although the party is split on the matter. The main opposition Progressive Labour Party supports political independence, but has never made it an issue in election campaigns. The opposition wants the question of Bermudian independence to be determined in a referendum by the colony's 60,000 people.

A poll last year indicated a sizeable majority in favour of maintaining the status quo, but about 30 per cent suggested the issue be put to a referendum. The PLP has argued for the debate by legislators to begin after the planned visit of a parliamentary delegation from the UK, but the government wants to start next month.

Bermuda is the oldest British colony in the Commonwealth, and has benefited from self-government under a 1968 constitution. The UK is responsible for defence, internal security and foreign affairs. The UBP has formed the government since 1968.

The UK is willing to grant independence if there is a clear indication the majority want this change, say British officials. Conservatives in the ruling UBP say undecided Bermudians should look south to the "mess" some former colonies in the Caribbean have made of their golden opportunities.

Lawyers divided on smoking case ruling

Judge's compromise on class action gives rise to optimism on both sides, writes Richard Tomkins

US CIGARETTE MAKERS NAMED IN THE NEW ORLEANS LAWSUIT

Company	Leading brands	US sales 1993 $bn	Market share (%)
Philip Morris	Marlboro, Merit, Basic	7.9	42.2
R.J. Reynolds Tobacco	Winston, Doral, Salem	4.9	30.6
Brown & Williamson Tobacco	Kool, GPC Approved	1.8	11.0
Lorillard	Newport, Kent, True	1.5	7.1
American Tobacco	Carlton, Pall Mall, Montclair	1.1	6.7
Liggett & Myers	Mainly private label	0.3	2.4

Notes: 1. The suit also names US Tobacco, a manufacturer of chewing tobacco; all these companies' parent groups; and the Tobacco Institute, an industry body. 2. American Tobacco was acquired by BAT Industries in December. It is being merged with Brown & Williamson, also a BAT subsidiary.
Source: BAT Industries

US tobacco manufacturers were yesterday claiming a legal triumph after a court in Indiana refused to award damages to the wife of a man who died of lung cancer. The man had claimed he was addicted to smoking.

The case had been closely watched because it was the first to go to a jury since last year's disclosures in congressional hearings suggesting that the tobacco companies had deliberately concealed evidence that their products were addictive. After a three-week trial, the judge dismissed the jury after it was unable to agree on a verdict. The tobacco companies said it demonstrated jurors would not award damages to people who knowingly chose to engage in behaviour carrying well-known risks.

US cigarette manufacturers facing the biggest class action in legal history after a court ruling last week take comfort in the fact that, in spite of hundreds of claims over the years, they have never paid out a penny in damages.

Yet as lawyers examine the implications of the New Orleans ruling, it has become clear that this case will be very different.

Previous claims have usually sought compensation for health damage but juries have taken the view that the health risks of smoking are well enough known for it to be assumed that smokers choose to accept them.

In the New Orleans case, however, some 60 US law firms have united against the tobacco industry to seek compensation for smokers claiming to have been addicted to cigarettes. The class comprises all nicotine dependent cigarette smokers in the US, together with the spouses, children, relatives and "significant others" of nicotine dependent smokers now dead. Lawyers for the plaintiffs say the companies could face claims of between $50bn and $100bn.

They allege that the cigarette companies fraudulently failed to inform smokers that nicotine was addictive even though the companies knew it was. They also claim that the companies manipulated the level of nicotine in cigarettes to make them addictive and keep them that way.

The plaintiffs want compensatory damages for the money spent by smokers on cigarettes, for the emotional distress caused by their alleged addiction, and for the cost of monitoring their health for addiction-related problems. They also want punitive damages for the manufacturers' alleged fraud and negligence.

Ruling in a New Orleans federal court on whether the case could be brought as a class action, Judge Okla Jones struck a compromise. He said that the core issue of cigarette companies' alleged fraud and negligence could be brought as a class action; and if the decision went against the manufacturers, so could the issue of punitive damages. But he said smokers' individual circumstances varied too greatly for compensatory damages to be settled as a class action, so separate trials would be needed to determine the amount to be paid in each case.

In a further twist, Judge Jones ruled that the level of punitive damages should be fixed as a ratio of the compensatory damages awarded to each individual claimant. In other words, the cigarette manufacturers would only have to pay punitive damages each time an individual claim resulted in an award of compensatory damages.

The cigarette companies have welcomed this aspect of the ruling because it seems to mean that, even if the class action goes against them, individual claimants will still have to argue their cases at millions of separate trials across the US if they want to qualify for damages. In that event, the tobacco companies say, they will have the opportunity to deploy all their traditional defences – in particular, arguing that people knew what they were letting themselves in for when they started smoking.

Mr John Coale of Coale & Van Susteren, one of the law firms leading the class action suit for the plaintiffs, suggests that this is false bravado on the tobacco industry's part because if the core case goes against the industry, each individual trial will become a "no-lose" proposition for the claimant. "It'll just be reaching up for dollars because, if the liability is already clear, then it just a question of how much each claimant is going to get."

In that event, Mr Coale says, the industry will find it more attractive to look for ways of settling the compensatory damages as a class action rather than trying to fight every case.

"People would be paid differing amounts of compensation according to their category," Mr Coale says. "You could have one category for people who just started smoking and paid one visit to the doctor, another for people who went through all kinds of different therapies to try to quit, and go on from there. It's not unusual to do it that way."

Tobacco industry lawyers say this interpretation of the ruling is incorrect. Mr Michael York of Wehner & York, a law firm advising Philip Morris, says that even if the class action established that cigarette companies had misled smokers about their products, claimants would still have to demonstrate in their individual trials that they had relied on that information, or the lack of it, in deciding whether or not to smoke.

"That would be a very difficult trial to win because for time immemorial, in this country and everywhere else, people have recognised that once you start smoking cigarettes, it can be very difficult to stop," Mr York says.

Things may never get that far. The cigarette companies are already seeking leave to appeal against the decision to let the class action proceed, arguing that it is contrary to law. Mr Richard Schneider of King & Spalding, the law firm representing Brown & Williamson Tobacco, says: "It violates common sense to think that a jury or anybody else can decide whether a tobacco company is liable for punitive damages when they haven't determined whether we are liable to a single individual yet."

Mr Coale replies that the cigarette manufacturers ought to be happy to see the case proceed. "If they are so sure they are not liable, then once these core issues are decided, they could be off the hook."

Peru border clash kills 13

By Raymond Colitt in Quito

Fighting has broken out again along the Peru-Ecuador border with at least 13 dead, threatening a week-old ceasefire agreement and peace-keeping efforts by mediators.

International observers from the four mediating countries (the US, Chile, Argentina and Brazil) said there was intense combat in the disputed Cenepa river valley. The Ecuadorean armed forces said 13 of their soldiers had been killed in the area. There were no details of deaths on the Peruvian side.

The head of the 16-member delegation, General Ariel Pereira da Fonseca of Brazil, recommended permanent observers arrive as soon as possible.

Witnesses reported mortar and machine gun fire near the Ecuadorean military post of Coangos, where the international observers remained only briefly to inspect front-line activity. The officials surveyed the Peruvian side of the front yesterday and will make a final recommendation to the four guarantors of the ceasefire agreement, known as the Rio Protocol, on their return to Brazil.

Until yesterday only one soldier was reported killed since the ceasefire was signed. Both sides accuse the other of having violated the treaty and of seeking strategic advances in the contested Condor Mountain range.

Bouchard is back, but it is not clear that he will be able to steer the province to independence, reports **Bernard Simon**

Quebec secessionists look to saviour

Bouchard (left): back after having his leg amputated

An air of personal drama and political expectancy hung over the House of Commons in Ottawa earlier this week as Mr Lucien Bouchard limped, with the aid of a cane, to the Opposition front benches.

Mr Bouchard took his seat as leader of the Bloc Québécois (BQ) and the official opposition for the first time since his left leg was amputated in early December to halt the spread of a lethal flesh-eating disease.

Quebec nationalists have eagerly awaited his return to public life. They are banking on his charisma, down-to-earth style and canny instincts to rejuvenate their campaign to turn the French-speaking province into an independent country.

The campaign has faltered in Mr Bouchard's absence to the point where a shift in the separatist forces' strategy looks increasingly likely.

Mr Jacques Parizeau, Quebec's premier and leader of the Parti Québécois, the BQ's provincially-based counterpart, has up to now promised to hold a referendum on independence by the end of this year, with an unambiguous question on the ballot.

While Mr Parizeau still insists that these pledges will be fulfilled, Mr Bouchard has used his return to politics to open what could be an escape hatch. In his first interview since leaving hospital, he said: "I can't envisage a hypothesis where we deliberately expose Quebec to a 'No' to sovereignty."

Until recently, the separatists were confident that the wind was blowing their way. The frustration that accompanied the failure of two rounds of constitutional talks, aimed at giving Quebec a new deal within the Canadian federation, encouraged the view that a majority of Quebeckers could at last be persuaded to take what one former PQ leader called "le beau risque".

The independence movement planned to push forward by capitalising on Ottawa's towering debt burden, inefficient duplication of government services, and disdain in Quebec towards Mr Jean Chrétien, the staunchly federalist prime minister.

The PQ has also encouraged the notion that separation would be relatively painless, with Quebec automatically acceding to the North American free trade agreement and retaining the Canadian dollar and Canadian passports.

Mr Parizeau put his plans into high gear after the PQ took office last autumn. He quickly framed a referendum question and unveiled a process which envisaged a declaration of independence within a year of the poll. The PQ also set up 18 roving committees, heavily stacked with its own supporters, to help frame the independence law and, in the process, generate enthusiasm for sovereignty, especially in rural Quebec.

However, Mr Parizeau's assumptions have turned out to be flawed, and he has encountered some unexpected obstacles. Over 33,000 people have attended the committees' hearings over the past three weeks. But the members have heard more about local issues such as education, unemployment and dairy quotas than about independence.

Judging by the hearings, Quebeckers appear for the time being to be less interested in complaining about Canada than worrying what benefits independence would bring. The Quebec media, usually overwhelmingly nationalistic, has taken a sceptical view of Mr Parizeau's tactics. Even Mr Chrétien's country-bumpkin image in Quebec appears to be gradually fading.

Meanwhile, the federalist side has made itself an elusive target. Mr Chrétien and Quebec Liberal leader Mr Daniel Johnson have refused to take up the PQ's challenge to come up with new constitutional proposals.

"We haven't yet started to fight," says Mr Michel Belanger, a former chairman of Montreal-based National Bank of Canada who is masterminding the federalists' strategy.

The Liberals made an important symbolic breakthrough earlier this month when their candidates won three simultaneous by-elections in Quebec. One of the newcomers was named to the cabinet, with responsibility for referendum strategy, just a few hours before Mr Bouchard returned to the House of Commons.

A widely-publicised poll, commissioned by the Canadian Broadcasting Corporation, showed that only 40 per cent of Quebeckers currently favour independence. Federalists suspect that even some of those are open to persuasion. Almost a third thought that a sovereign Quebec would remain a province of Canada.

The battle is certainly not over. One PQ official says that its internal polls show that support for sovereignty is substantially higher than 40 per cent – though not yet high enough to win a referendum. He notes that the CBC poll was taken before the regional commissions started their work.

The PQ hopes that the federal budget to be tabled on Monday, which is expected to include deep spending cuts and a variety of tax increases, will further the case for a split from Ottawa.

It is also likely to hammer home the message that a No vote in the referendum – whenever it takes place and whatever the question – would greatly weaken Quebec's influence within the federation. "It would be interpreted as a sign of satisfaction with the present situation", the official says.

Most of all, the secessionists are hoping that Mr Bouchard will come to the rescue. But Mr Bouchard is a more cautious politician than Mr Parizeau. With the BQ leader's return to active politics, the premier could be faced with the uncomfortable choice of provoking a split in his party, putting some water in his wine, or risking a humiliating referendum defeat.

Algiers mutiny highlights west's dilemma

Prison carnage coincides with IMF loan talks and requests for official debt relief, writes **Roula Khalaf**

The mutiny at the Serkadji prison in Algiers on Wednesday and the brutal reaction of the army-backed government bodes ill for Algeria's attempts to seek international economic aid.

The deaths of at least 95 Islamist prisoners in the bloodiest incident yet in the country's three-year civil war also throws into sharp relief the dilemma for the west as the first round of negotiations began in Geneva this week with the International Monetary Fund on a three-year credit facility.

Mr Anwar Haddam, a senior leader in exile of the Islamic Salvation Front, the party that was poised to win elections cancelled by the government in *1992, yesterday urged the international community to cut all* non-humanitarian aid to Algiers.

Even before the killings there was rising international pressure to link aid to Algiers to the army-backed govern*ment's willingness to seek a* political settlement to a crisis that has already claimed more than 30,000 lives.

Algiers will require $8bn to $9bn in debt relief and new money this year to keep its economy afloat, according to *bankers. An IMF agreement –* from which Algiers is seeking between $1bn and $3bn in aid over three years – will pave the way for a new rescheduling of debt to the Paris Club of official creditors.

Swayed by French arguments that only economic *growth can stem the rise of* Islamism in a country where nearly 60 per cent of the population is under the age of 25 and half of them are unemployed, the IMF last year extended a $1bn standby credit to Algiers. This was followed by a Paris Club rescheduling of $5bn. The aim was to steer an economy plagued by decades of socialist mismanagement towards market reform. Both agreements will have run out by May.

Meanwhile, support for the *army-backed government has* been weakened by the Rome declaration, a "national contract" signed last month by Algeria's opposition parties, including the FIS. The declaration commits the FIS to principles of democracy and calls for *negotiations with the govern*ment on an interim administration leading to elections.

But the west's hands are tied. As French officials consistently point out, western governments recognise that halting aid to Algeria could fuel *further chaos and only serve to* starve the population.


Anwar Haddam: "Cut aid"

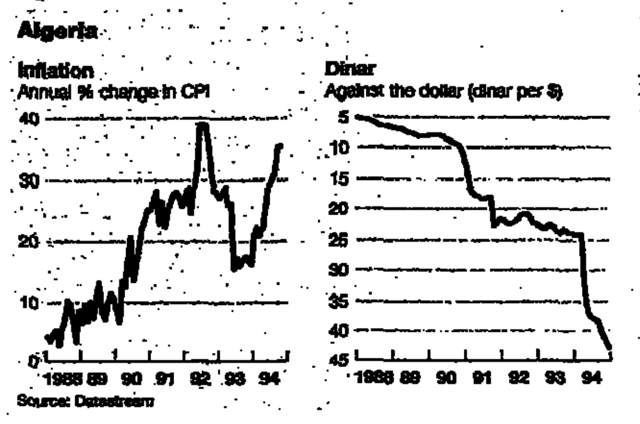
Algerian officials, mindful of the west's hesitance, have already gone on the offensive. They now insist they should be *judged on their economic per*formance – not their politics.

Mr Michel Camdessus, IMF managing director and a long-time friend of Algeria, declared two months ago that Algiers had "scrupulously" abided by IMF prescriptions and some*times even exceeded expecta*tions.

This is true on paper. The budget deficit shrank to 5.4 per cent of gross domestic product last year from 9.3 per cent in 1993; the dinar has in effect been devalued by more than 50 *per cent, and average inflation* of 30 per cent last year was better than IMF projections of 38 per cent.

Former Algerian officials, however, argue that these *numbers do not point to real* and lasting reform. For example, they say the budget deficit is reined in because employees, too busy worrying about their own safety, are not working, or requesting supplies or salary increases.

"*When we look behind the* numbers, we see that the mechanisms continue to favour non-productive and speculative sectors," says Mr Smail Goumeziane, former commerce minister. Pointing to sluggish GDP growth, which *stood at a mere 0.1 per cent* last year, against IMF projections of 3 per cent, and the fact that state enterprises continue to run at no more than 50 per cent of capacity, Mr Goume*ziane says this proves the lim*ited amounts of foreign currency auctioned off by the government are going to speculators and merchants who import goods, rather than to shore up imports of raw material and equipment for state enterprises.



Source: Datastream

"Who can afford to buy foreign currency? People who have dinars," he says, "but the state companies are losing money" and have none to buy foreign currency with.

The dismantling of state companies, in a country where the public sector accounts for 70 per cent of GNP, is the key to any real reform. Mindful of that, the Algerian government has been working with the World Bank on a draft privatisation law and five hotels have already been put up for bids. *Curiously, as meetings with* the IMF got under way, the state radio in Algiers announced plans to create a privatisation ministry and said negotiations with trade unions over privatisation, which would result in 250,000 layoffs, *had already started.*

But selling state companies assumes someone, other than government cronies, is willing to buy them and the effectiveness of the exercise lies in its ability to spur a class of investors that could build the foun*dation of a private sector. This* is something even Mr Camdessus would agree is improbable at a time when, according to human rights groups, up to 1,000 people are killed every week and bridges and railway lines are blown up.

Algerian experts believe that the west is not ready, nor can it afford to cut Algiers' lifeline. But given the growing mistrust of Algiers and the uncertainty regarding the government's fate in the long run, economic aid will flow less generously this year, with Algiers getting the lower end of its requests.

Nato turns to N Africa

By Bruce Clark, Diplomatic Correspondent

Mr Willy Claes, the hard-pressed secretary-general of Nato, will today set in motion the alliance's controversial effort to upgrade its relationship with North African countries and Israel.

In separate meetings with the ambassadors of Israel, Egypt, Tunisia, Morocco and Mauritania, Mr Claes will initiate a cautious diplomatic dialogue whose stated purpose is to "contribute to security and stability" in the region.

Despite its low-key billing, the Nato initiative has already prompted an angry and suspicious reaction from Islamic and North African countries *left out of the process.*

Hostility towards the initiative was fuelled by a comment from Mr Claes – later withdrawn – that Islamic fundamentalism was "at least as dangerous" as the threat once posed by the Soviet bloc.

In an official commentary, Algeria has complained that its exclusion from the dialogue portended "interference in a sovereign state's intentions" and possibly "intimidating intentions" on the part of Nato.

Diplomats emphasised yesterday that, at this stage,the Nato initiative amounted to a discreet exchange of views, aimed at comparing notes on security threats and ironing out misunderstandings.

France, Spain and Italy have been pressing fellow Nato members to "look southwards" *since the collapse of communism.* However, scepticism among Nato's northern states – as well as Mediterranean members Greece and Turkey – has ensured that the initiative will be confined to a limited brief.

Mr Jonathan Eyal, director of the Royal United Services Institute for Defence Studies, said Nato's tortured approach to North Africa reflected the dilemmas it faced.

On one hand, Nato would lose all credibility as a security institution if there were a huge flare-up of violence in Algeria and the alliance was seen to be ineffective.

On the other hand, it was already clear that heavy-handed diplomacy, and remarks which upset the sensitivities of moderate as well as *fundamentalist Moslems, could* do more harm than good.

Cost of CFA devaluation

By Frances Williams in Geneva

The 50 per cent devaluation of the CFA franc a year ago has hit health and education services to francophone Africa's 80m people, according to evidence presented to a United Nations-sponsored meeting in Geneva this week.

Living standards in urban areas have fallen in the 14 countries affected (Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Mali, Niger, Senegal and Togo), while access to health care has declined and resources for schools are being spread more thinly.

Nine of the 14 are among the *world's poorest nations as* defined by the UN.

Dr Michel Jancloes of the World Health Organisation, the meeting's chairman, said yesterday that there had been "no preparation at all" for the social impact of the January 1994 devaluation, even though governments and international agencies knew about it beforehand.

The CFA (Communauté financière d'Afrique) franc, pegged to the French franc since 1948, was devalued after persistent pressure from the International Monetary Fund and World Bank to remedy the economic imbalances caused by its massive overvaluation.

In the longer term the devaluation should regenerate domestic agricultural and industrial production, previously unable to compete against cheap imports, and *increase prosperity. But in the* short term it has meant higher inflation, a bigger import bill and a heavier burden of external debt.

The four-day meeting, co-sponsored by the WHO and the UN Educational, Scientific and Cultural Organisation (Unesco), has brought together the top finance, health and education officials in all 14 CFA franc nations to draw up post-devaluation strategies for the health and education sectors.

In the pharmaceuticals sector, the devaluation's impact is "potentially disastrous", the WHO says. Ninety per cent of drugs are imported. Their prices doubled overnight, though most governments initially tried to hold down the cost to patients.

INTERNATIONAL NEWS DIGEST

US seeks backing on Iraq sanctions

US President Bill Clinton is sending Ms Madeleine Albright, his United Nations delegate, to several member states of the Security Council to drum up support for maintaining sanctions against Iraq. She is due in London today at the begin*ning of a tour that* will include Muscat, Prague and Rome.

Neither Paris nor Moscow is in the schedule, apparently because the US believes that France and Russia are unlikely to be persuaded to reduce pressure to lift sanctions. Bonn is also excluded because Mr Clinton and Chancellor Helmut Kohl discussed the issue last week. The timing of Ms Albright's mission was clearly dictated by the fact that the Security Council must again review sanctions in mid-March. An imme*diate Iraqi response to the announcement was that the US was* "growing desperate".

The US statement said that in talks with leaders, Ms Albright would discuss "the best means to ensure Iraq's full compliance with its obligations" under council resolutions.

After returning to New York she will visit Argentina and Honduras, the Latin American states on the council. Iraq is already exporting oil through Iran at bargain prices in defiance of the council. Tehran has been pressing to have the embargo lifted. *Michael Littlejohns, New York*

Zambian bank chief sacked

The Zambian government dismissed Mr Dominic Mulaisho, the Bank of Zambia governor, yesterday following this week's sudden depreciation of the kwacha.

A brief statement from State House, the president's office, said said he had been replaced by Mr Jacob Mwanza, a senior government economic adviser in the president's office.

After a stable average rate of 700 kwacha to US$1 for over six months, the kwacha has, for unclear reasons, fallen to 850 in the past week. *AFP, Lusaka*

ANC ignores Buthelezi

South Africa's dominant African National Congress decided yesterday to ignore what one senior member described as the "silly tantrums" of Chief Mangosuthu Buthelezi, minister of home affairs, who on Tuesday said his Inkatha Freedom party would boycott parliament for at least the next fortnight.

President Nelson Mandela demonstrated his contempt for Mr Buthelezi's action by asking Mr Thabo Mbeki, the deputy *president, to take charge of the crisis* just hours before he left South Africa on a two-week trip to Europe and the US. Mr Mbeki said before departing that nothing would happen to resolve the problem before his return on March 6, three days after a congress of the IFP is due to decide whether to maintain the boycott. *Roger Matthews, Cape Town*

Warning on 'donor fatigue'

Mrs Emma Bonino, the EU Commissioner for humanitarian aid, yesterday warned of an outbreak of "donor fatigue" unless taxpayers saw positive results from aid programmes.

An explosion of humanitarian aid since the collapse of the Soviet Union had led to the EU's aid effort increasing sevenfold between 1990 and 1994. But, she said, "I am afraid that taxpayers will decide to tighten the purse-strings of humanitarian aid if they do not see any results".

Mrs Bonino also warned that "a continuous and open-ended growth in funding" was unrealistic and that the only acceptable alternative was a preventative strategy.

The EU, the world's largest aid donor, increased its aid resources from Ecu605m ($768.35m) in 1993 to Ecu760m last year, according to the European Community Humanitarian Office annual report. *Caroline Southey, Brussels*

Countryside 'is key to Vietnam's development'

By Peter Montagnon, Asia Editor

Vietnam needs to tackle rural poverty if it is to engage the bulk of its population in its development and secure sustainable economic growth for the longer term, the World Bank said yesterday.

Although the country's economy is now growing at an average rate of 8 per cent a year, annual per capita income is less than $200 and 51 per cent of the population live in absolute poverty, the bank said in a policy report.

"This report will set the stage for a lot of our future studies and projects," said Ms Jennie Litvak, a bank economist and one of the authors. "There is no way Vietnam can have sustainable economic growth unless it involves a greater part of the population than just those living in Hanoi and Ho Chi Minh City."

The experience of countries such as Indonesia and China shows that poverty levels can be reduced more sharply if emphasis is placed on rural development. Absolute poverty was slower to fall after economic growth took off in Thailand, which paid less attention to rural areas, she said.

"Broadly based economic growth – with policies that absorb and make productive use of the rural labour force – will expand employment and income-earning opportunities for the poor in Vietnam," the report says. "Policies that fail to benefit farmers will bypass most of the poor."

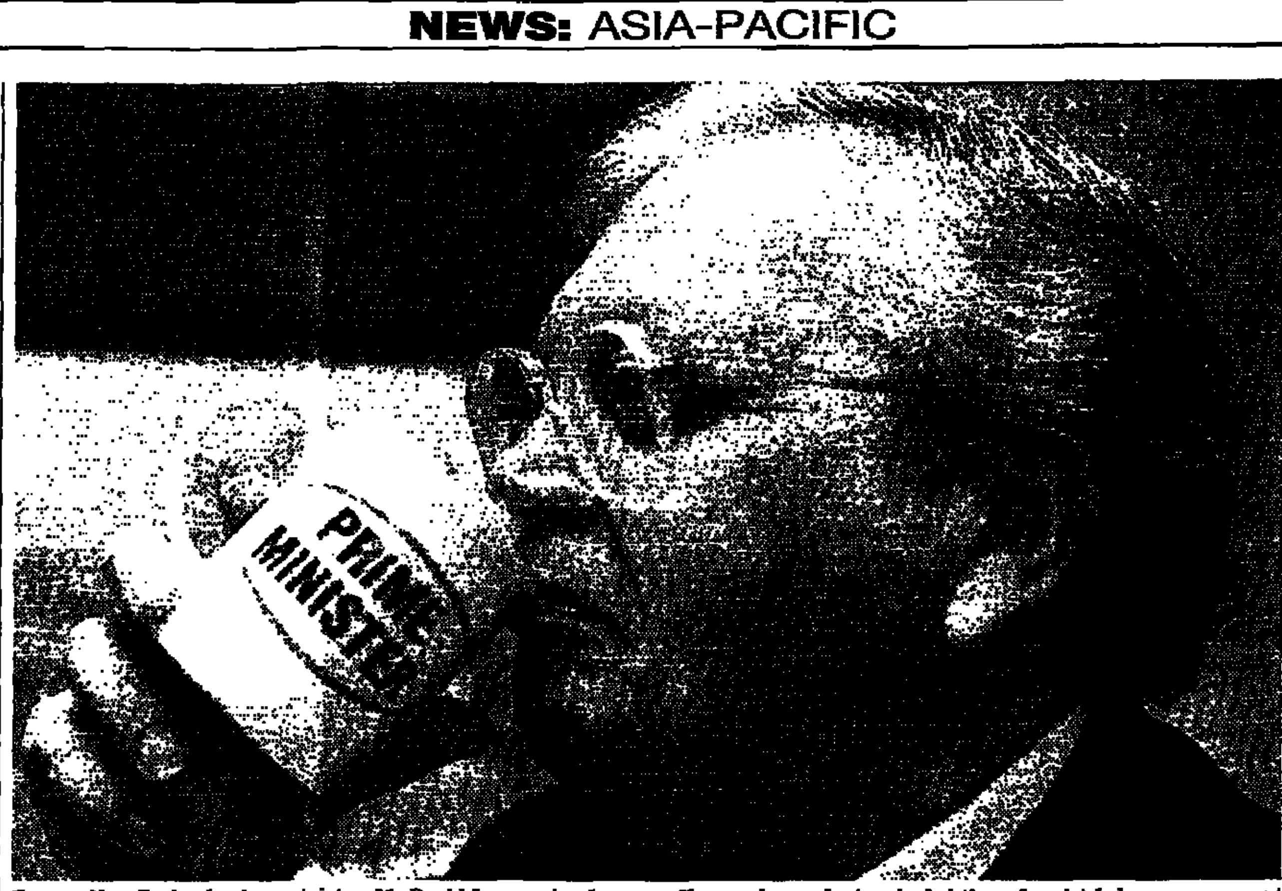
If economic growth continues at its current rate, only 29 per cent of the population would be living in absolute poverty by the turn of the century. But the risk is that the pattern could vary sharply from region to region. The economic growth rate varies from 2.5 per cent in the north central coastal region to 15 per cent in the south-east. If that continued, poverty would be all but eliminated in the south-east by the year 2000 but would still affect 68 per cent of the population living along the north central coast.

The report recommends focusing education spending on primary and lower secondary schools, while encouraging private financing of vocational training and university. Vietnam should also improve access to basic health care and target its social welfare spending more towards the rural poor. The ability to fall back on a social safety net might encourage rural people to take more risks in deciding to diversify away from agriculture.

While social welfare, health- and basic education are of national importance and should be funded centrally, government finance should be reformed to give more independence to local government both in raising revenue and allocating expenditure.

Vietnam also needs a more efficient land market with a clear system for transferring land title and improved access to credit for the rural population. Progress is under way in the latter area with the launch of new rural credit institutions.

Vietnam Poverty Assessment and Strategy. The World Bank, 1818 H Street NW, Washington DC 20433, USA



Former New Zealand prime minister, Mr David Lange, sips from a coffee cup he used when he led the reformist Labour government between 1984 and 1989. Now opposition foreign affairs spokesman, he said yesterday he would stand down in 18 months' time at the next general election, which will be held under the German system rather than the Westminster first-past-the-post method he favours. At 52 he was "too old to be forced to conform to life in a different fishpond". Internationally Mr Lange was best known for his row with the US, Australia and Britain when New Zealand banned visits by nuclear ships. Reuter

Asean minister reaches for the sky

By Kieran Cooke in Kuala Lumpur

Mr Jusuf Habibie, Indonesia's minister of research and technology and one of the country's most powerful figures, yesterday raised the prospect of a civil airliner consortium along the lines of Airbus Industrie being formed in the future by countries in the Association of South-East Asian Nations.

In Kuala Lumpur for the signing of a complex military and car barter deal with Malaysia, Mr Habibie said: "I now dream of the 21st century when a commercial aircraft will be made by a consortium comprising Indonesia, Malaysia, Singapore and other south-east Asian countries."

Mr Habibie is head of Indonesia's state-owned aircraft manufacturer, Industri Pesawat Terbang Negara (IPTN). The deal with Malaysia involves the Malaysian defence forces purchasing six IPTN manufactured CN235 transport aircraft.

In return Indonesia will buy 20 MD3-160s, a small aircraft manufactured by a Malaysian state concern, plus 1,500 Malaysian-made Proton cars. In addition Indonesia will purchase aircraft maintenance services from Malaysia. The total deal is estimated to be worth $224m.

"Both countries are paying cash and, at the end, the money will be squared," said Mr Najib Abdul Razak, Malaysia's defence minister.

Mr Najib said the Malaysian air force would use the Indonesian aircraft for troop transport while the Indonesian transport ministry would use the Malaysian planes. The Proton cars would be used as Indonesian government vehicles and as taxis in Jakarta.

Though both Mr Najib and Mr Habibie were keen to emphasise that the barter arrangement was a significant step in co-operation between Asean countries, there has been criticism of the deal. Indonesian car assemblers and importers are questioning whether the Malaysian Protons will be given preferential treatment and be exempted from car import taxes of as much as 200 per cent. Sections of the Malaysian military are believed to be unhappy with the choice of the Indonesian manufactured aircraft.

Mr Habibie's plans for overseas sales of both IPTN's transport and commercial aircraft were dealt a blow this week when the Indonesian finance ministry ruled out the provision of government sponsored export credits to so-called state strategic industries, which include IPTN.

Malaysia, which has its own aerospace development programme, is also being cautious about committing itself to Mr Habibie's vision of an Asean manufactured aircraft.

"Once we have finalised our aerospace plans we can discuss with Indonesia and other south-east Asian nations the merits of setting up a consortium based on the European model," said Mr Najib.

Power sector sell-off plans divide Australians

Poll finds opposition as Victoria leads the way in break-up of electricity monopolies, writes Nikki Tait

Members of Victoria's state government headed off on a tour of world financial centres earlier this month hoping to sell their A$9bn (£4.3bn) electricity privatisation scheme to investors. No sooner had they departed, than the battle began at home.

A poll of state residents, conducted by the polling group AGB McNair, showed that only 22 per cent agreed with the proposed sale, while 63 per cent were opposed. An even larger percentage – 69 per cent – believed that the power assets should, in any event, remain wholly Australian-owned.

Opposition politicians hopped on the bandwagon last week, formally launching a fighting fund to keep the power industry in state hands. The sell-off, they warned, would cost hundreds of jobs and lead to higher tariffs for many consumers.

For all the furore, few observers think the objectors will achieve anything more than some modifications.

For a start, Victoria's Liberal government has a A$34bn debt mountain bequeathed to it by the former Labor administration which privatisation proceeds would help meet. At the same time other Australian states are restructuring their electricity assets and there are plans to have the beginnings of a national grid up and running by mid-year which would expose Victoria's relatively high-cost electricity authority to competition.

"There really is no alternative," Mr Jeff Kennett, Victoria's premier, said.

For decades, Australia's electricity sector has been run by state-owned monopolies, varying in size and structure partly as a result of the vagaries of the country's abundant natural resources. New South Wales, for example, has the largest generation capacity and is heavily dependent on coal; in Western Australia, gas plays a much bigger role.

Connections between these state-owned authorities have been limited, although some transmission links have been established recently, especially on the eastern seaboard. The large Snowy Mountains hydro-electric scheme, operated by a federal authority, also feeds electricity to NSW, Victoria and the Australian Capital Territory.

Thanks to the wealth of natural resources, Australian electricity costs are low by international standards. Even so, advocates of competition policy see scope for efficiency gains.

The influential Hilmer Report, which recommended a "national competition policy" in August 1993, noted that opportunities had been identified in the rail, electricity, water and gas industries for raising gross domestic product by 2 per cent a year, or A$8bn.

So, change is in the air. The joint federal-state plan to implement a national grid is aimed at encouraging open access and free trade in electricity and being a forerunner to a fully competitive system in which large buyers would be able to negotiate directly with generators.

As a recent study of Australia's electricity supply industry by Barclays de Zoete Wedd pointed out, the mid-1995 target date for such a grid may be "somewhat ambitious" – given that key measures, such as the interconnection operating agreements, have yet to be finalised. However, draft legislative and regulatory arrangements are under consideration by the interested parties.

There are also independent initiatives being pursued by the states. In Western Australia, for example, the State Energy Commission has been split into two separate "corporatised" – commercially run – gas and electric utilities, and in New South Wales and Queensland transmission and generation functions are also being divided. These various manoeuvres are seen either as a prelude to privatisation or as a means of encouraging accountability and efficiency within the state ownership structure.

By far the most advanced and complex proposal is Victoria's. To an extent, the authorities have followed the UK electricity privatisation model, although they also claim to have learnt its lessons.

As a first step, just over a year ago, the old monopoly's assets were divided into three entities. These were responsible for generation, for the high voltage transmission grid (and system control) and for low voltage distribution, retail supply and customer service.

The three entities have been further subdivided, so that there are five distribution companies covering different parts of the state; a transmission network company; a separate company administering the wholesale electricity market and overseeing system control; and a holding company for the generation assets, under which five groups of power stations will eventually trade as independent producers. The changes are now evident to the public: Melbourne households, for example, find their bills coming from companies with names like Solaris, CitiPower or United Energy.

The declared aim is to turn everything over to the private sector in due course. However, for many of the assets, there is no fixed sale timetable nor has any preferred sell-off method been announced. What has been said is that one of the five distribution companies could be sold off in the first half of this year and the remaining four later this year.

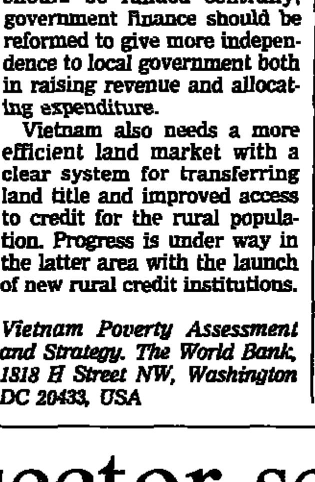
First would almost certainly be the largest, United Energy. This covers south-east metropolitan Melbourne and areas immediately to the south-east and north-east of the city. It has more than half a million customers, and sales of A$684m for 1993-94.

How closely this outline timetable is adhered to may become clearer when the state government delegation reports back on its tour of financial centres – London, Paris, Zurich, New York – having got a better sense of investor interest. It is no secret that overseas utilities, including some of the UK electricity companies, are casting an eye over the opportunities, although interest from domestic investors has appeared more muted.

"The interest in Europe, particularly in Britain but also Ireland, Sweden, France and Germany, has been very strong," Mr Alan Stockdale, Victoria's treasurer, was reported as saying from New York. "(In the US) we have had more requests for discussions than we can accommodate."

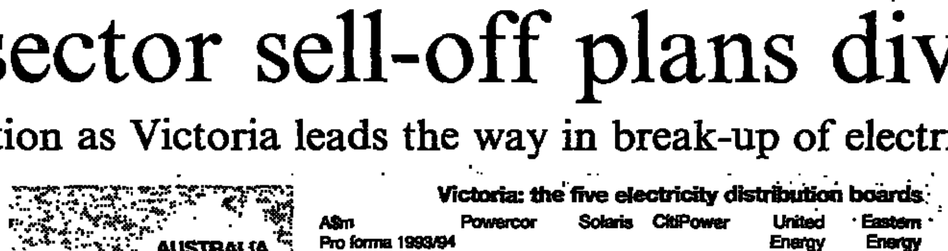
But a few warning voices have aleady been raised about longer-term implications of the scheme. Moody's, the US rating agency, noted last year that Victoria had only 4.5m people and a relatively small base for five competing generators.

"The potential for stranded investment is a concern if vigorous price competition evolves and the generators are unable to continue to charge prices sufficient to cover all the expenses incurred in building and maintaining plant," it warned.



Victoria: the five electricity distribution boards

A$m Pro forma 1993/94	Powercor	Solaris	CitiPower	United Energy	Eastern Energy
Total assets	988	550	808	1,106	889
Sales					
Industrial	227	107	53	167	114
Commercial	166	108	316	197	138
Domestic	289	122	112	303	267
Other	17	10	19	17	14
Total	699	347	500	684	538
Customers	526,080	233,240	230,822	514,714	457,937
Employees	1,500	597	1,023	1,111	1,388
Line length (km)	108,000	4,000	4,000	16,000	55,000



Sources: Victoria Treasury; International Electricity

ASIA-PACIFIC NEWS DIGEST

China fears dam turmoil

Internal Chinese government documents published by the US-based Human Rights Watch/Asia detail plans by China's public security authorities to control widespread social turmoil expected to stem from the resettlement of 1m people in the controversial Three Gorges dam project. Two government documents obtained by Human Rights Watch warn of clashes between those who are relocated from fertile areas like Kai County, famous for its Mandarin oranges, to poor areas where peasants even now fight over water, trees and patches of farm land. "The redistribution of benefits during the adjustment period will intensify jealousies between the masses in different relocation zones," says the Internal Report of February 1993 by security officials in Wanxian Prefecture.

A 1994 report by officials from Hubei Province Hichang Municipal Public Security Bureau warns of "sabotage by domestic reactionary forces" and increasing activity among the Chinese criminal population.

Human Rights Watch has sent its report to US investment houses like Merrill Lynch and Morgan Stanley as well as 20 institutional investors representing public pension funds, asking them to raise human rights matters with the investment banks. *Nancy Dunne, Washington*

Pakistani Christians reprieved

The Lahore high court in Pakistan last night freed two Christians, one a 14-year-old boy, who had been sentenced to hang by a lower court for blasphemy. The boy, Salamat Masih, and Mr Rehmat Masih, 40, were arrested in 1993 when a village imam or prayer leader in the Gujranwala district south of the capital Islamabad accused the two of throwing a piece of paper in a mosque with blasphemous remarks against the Prophet Mohammed. A third defendant was shot dead as the three walked out of a court in Lahore last April.

Pakistan's national human rights commission said the case appeared to have developed out of a personal grudge. The case gained worldwide publicity and international human rights groups used it as an opportunity to criticise Pakistan's Islamic laws. It also brought some of the strongest opinion from local Islamic groups. Ms Benazir Bhutto, the Pakistani prime minister, was criticised by hardline Moslems when she said she was shocked by the death sentence.

There are fears for the safety of the two if they return to their village, and some human rights activists suggest they may have to seek asylum abroad. *Farhan Bokhari, Karachi*

NZ finds more cash for schools

New Zealand's rapidly improving economy will allow the government to accelerate spending on education and the environment over the next three years, Mr Jim Bolger, the prime minister, said yesterday. He was speaking after the release of Treasury budget forecasts which said that stronger than expected economic growth had pushed up the expected tax take by NZ$1.37bn this financial year. The Treasury forecast that the growing tax revenues would provide an operating surplus of NZ$3.59bn this financial year. Mr Bolger said this would allow new spending on education, health and social welfare of NZ$600m over each of the next three years. Tax cuts would still be on the agenda, but would depend on the maintenance of low inflation as well as continuing debt repayment and economic growth. *Terry Hall, Wellington*

Chinese inflation falls again

China's inflation rate in January slowed to 24.1 per cent a year, a fall of 1.4 percentage points on December, raising hopes that the price surges of last year may be abating. It was the third month in a row to show an easing of inflationary pressures. China's inflation rate hit a high for the year of 27.7 per cent in the 12 months to October before the rate of increase began slowing. Chinese economists, quoted by the official Xinhua news agency, said the latest figures indicated that China was getting on top of inflation – identified by the leadership as the country's main problem. "The extent of the drop during the three-month period was remarkable according to our research and it represents the start of a downward trend," said Mr Liu Shucheng of the Academy of Social Sciences. But he warned that bringing down inflation further would not be easy. *Tony Walker, Beijing*

'Lift ban on holding companies'

Japan's 48-year-old ban on holding companies, adopted during the US occupation to break up large conglomerates, should be abolished, Mr Tomio Tsutsumi, vice minister at the Ministry of International Trade and Industry, said yesterday. His remark followed a report to the ministry which said there was no logical background to the prohibition of holding companies. "Abolition would create new business ventures, support restructuring efforts and promote foreign investment," it said. *AFP, Tokyo*

Australian investment surges

Capital spending by Australian businesses is estimated to have risen by more than a fifth over the past year. According to the Australian Bureau of Statistics, private new capital expenditure rose by 3.2 per cent in the December quarter to A$7.87bn, a slightly lower increase than some economists had been predicting. However, this still left total capital expenditure up by 21.5 per cent over the December 1993 quarter, with spending on equipment, plant, and equipment almost 34 per cent higher. The surge has been seen as one of the main reasons for Australia's recent current account problems, since many capital goods are imported. The federal government recently revised upwards its estimates for the increase in capital expenditure during the 1994-95 fiscal year, and is now predicting a 24 per cent advance, compared with the previously estimated 14.5 per cent rise. *Nikki Tait, Sydney*

Bribes row angers Singapore

The Singapore football team has quit the Malaysian league following a row over allegations that betting syndicates bribe players and "fix" matches. Singapore has played in the league since the first Malaya Cup in 1921. Last year it won both the league and Malaysia Cup titles. Malaysian officials said all 16 teams in the league are likely to have been involved in match fixing.

NEWS: WORLD TRADE

US and EU press Tokyo on red tape

By William Dawkins in Tokyo

Japan yesterday came under pressure from the US and European Union to do more to dispose of the tangle of official regulations which hinder imports.

A US working group led by Mr Ira Wolf, assistant US trade representative, began two days of talks with Japanese counterparts, on the contents of an eagerly awaited five-year deregulation programme to be published by the Japanese government at the end of next month.

At the same time Mr Jorn Keck, EU ambassador to Japan, urged a panel of the three government coalition parties to make import barriers a priority of the anti-red tape plan.

The forthcoming scheme is the latest in series of only partly successful government attempts to curb Japan's business costs and consumer prices, among the highest in the industrialised world and a constraint on its economy's growth capacity.

The US and the EU late last year handed the Japanese government separate lists of measures they would like included in the programme. Washington concentrated on cars and car parts, telecommunications, distribution and financial services, while the EU urged progress on all those, plus government procurement, agriculture and transport.

Diplomats in Tokyo are divided on whether Japan's latest deregulation attempt will turn out to be mainly cosmetic, like some of its predecessors, or whether the government will make real headway in curbing the more than 10,000 economic regulations that affect an estimated 40 per cent of industrial activity.

The answer depends only partly on the success of foreign lobbying. More decisive will be the outcome of an intense debate between Tokyo government ministries.

Some, such as the Ministry of International Trade and Industry, are eager to reduce company costs fast, responsive to the wishes of the *Keidanren* business federation, but others, like the powerful Ministry of Finance, believe the pace of deregulation should be carefully controlled, to avoid economic instability.

Mr Tomiichi Murayama, the prime minister, seized on deregulation as a policy priority soon after taking office last June. He is hoping for a package good enough to lift his flagging public popularity. The crusade to curb state economic intervention, in which regulations are one of the main tools, is one of the few issues that commands support on all sides of mainstream politics, as well as from Japan's trade partners.

● The US has seen no progress in talks with Japan on deregulation, a senior US trade official said yesterday, reports AFX from Tokyo. "If the process continues in the same vein in the next weeks, the result will be a regrettable one for the people of Japan, for the international economy as well as for Japan's trade partners," he said.

Deputy US trade negotiator Charlene Barshefsky meets reporters at her Beijing hotel yesterday during talks with the Chinese government over intellectual property rights, which threaten to spark a trade war. Reuter

Investment in companies working in new portable telephone format

C&W in £10m Japanese link

By Michiyo Nakamoto in Tokyo

Cable and Wireless, the UK telecoms group, is linking with NTT, the privatised Japanese utility, to provide a new form of wireless telephone service in Japan.

The UK company will invest £10m ($15.5m) on a 5 per cent stake in nine companies affiliated to NTT which will begin providing "personal handy-phone services" (PHS) from July.

PHS is a Japanese standard for portable telephones which uses very low-power transmitters operating within a small radius. Handsets are smaller and lighter than conventional cellular phones because of the battery power required, and call charges are significantly cheaper. Calls may be made as well as received and the system allows the user to walk about. Japan is expected to have 40m PHS customers in 15 years.

The investment expands C&W's operations in Japan's growing wireless communications market and could lead to further co-operation between the two companies in promoting NTT's wireless system elsewhere.

The alliance between C&W and NTT increases the chances of PHS being adopted outside Japan, particularly in other Asian countries with dense urban populations.

Mr Jonathan Solomon, C&W's executive director in charge of strategy, said: "This new technology will enhance our portfolio of cellular operations around the world. We have been testing the PHS system in Hong Kong jointly with NTT and believe it has great potential, particularly in Asia, as a two-way wireless system which allows the user considerable mobility within an urban area and which has multimedia capabilities."

The spread of the PHS system outside Japan would be a big step forward in the international arena for Japan's telecoms industry, which has lagged its US and European competitors in selling its systems outside its home market.

The tie-up also expands C&W's operations in the Japanese telecoms market, where growth prospects have become increasingly attractive as deregulation progresses. C&W has a local subsidiary in Japan which provides value-added telecoms services.

Foreign telecommunications operators have been eyeing Japan, where the pace of deregulation is expected to quicken over the next few years. Several foreign companies have expressed interest in investing in Astel – a consortium of 10 companies including trading group Mitsubishi Power – one of three telecoms groups licensed to provide PHS services. The others are a group affiliated to DDI, and the NTT group.

Sri Lanka phone market draws international interest

AT&T of the US and Sweden's Ericsson are among the telecommunications groups seeking a share of Sri Lanka's small but lucrative telephone market, Reuter reports from Colombo.

The government plans to spend almost $600m in the next four years to improve telecommunications and has invited foreign companies to set up their own networks.

"We have signed two contracts with Korea Telecom and Ericsson and are in the process of finalising contracts with five other suppliers," Mr Hemasiri Fernando, chairman of the state-owned Sri Lanka Telecom, said. The other suppliers are Sumitomo, Mitsui and Marubeni of Japan, Finland's Nokia and AT&T.

Labour unions are demanding a review of licences already granted to private operators and oppose plans to privatise Sri Lanka Telecom (SLT).

The government says it plans to sell 20 per cent of the company to local and foreign investors, a move unions fear will eventually lead to full privatisation and cuts of up to two thirds of the workforce.

Mr Fernando said the seven suppliers would install 180,000 new lines as part of the country's single largest telecommunications project. "One hundred thousand lines will be installed by the year's end," he said. "We will only issue licences and lay down access charges to our network."

Mr Fernando said Sri Lanka had called for fresh bids to install 44,200 phones in Colombo after it cancelled a proposed deal with AT&T and Marubeni in September, saying the consortium's bid of Rs977m was higher than those of other companies.

The country plans to add 385,600 lines to its existing network of 180,000 fixed lines by 1998.

Mr Fernando said foreign companies would be allowed to set up parallel networks to meet demand quickly, as Sri Lanka Telecom had been unable to expand its network fast enough due to lack of funds. Telecom officials say there are 160,000 people registered as waiting for phones. Ninety per cent will get them when the 180,000-line project is completed.

Residents of some areas must currently wait years for a phone.

WORLD TRADE NEWS DIGEST

EU studies Asia shoe 'dumping'

Running spikes, ski boots and other sports shoes from China, Indonesia and Thailand are among the targets of the latest European Union anti-dumping investigations, the European Commission said yesterday.

The EU announced the start of procedures after complaints to the Commission by the European Confederation of the Footwear Industry.

West European shoemakers said imports from the three countries came in at prices which "significantly undercut" their prices.

Imports from China to the EU of various shoe types increased by up to 340 per cent between 1990 and 1993 while those from Indonesia rose by up to 226 per cent, the Commission said. Thai-made shoe exports to the EU rose 67 per cent during the same period. *Reuter, Brussels*

Japanese pledge to Vietnam

The Keidanren, Japan's powerful private-sector business federation, has reassured Vietnam that last month's Kobe earthquake will not check the flow of Japanese investment into Vietnam. "The earthquake will not affect our investment programme," said Mr Shoichiro Toyoda, Keidanren chairman.

But it has expressed concerns about Vietnam's investment climate. The Keidanren has asked Hanoi to address a nine-point economic agenda before Japan feels fully confident about heavy investment in Vietnam.

Japan's worries about committing big investments to Vietnam centre on cumbersome investment licensing procedures, uncertainty over foreign exchange stability and the settling of Vietnam's debt to Japanese commercial banks and trading houses, estimated at $400m.

Japan is the fifth largest investor in Vietnam, with 74 projects worth a contractual commitment of $790m, official statistics show. Mr Toyoda said Japan was likely to become the third largest investor in Vietnam this year, after Taiwan and Hong Kong.

Japanese companies are preparing a string of big-ticket investments for Vietnam this year, including cement, car and motorcycle making projects. *Our Hanoi correspondent*

Ford finishes Hanoi study

Ford said it became the first US carmaker to apply for a vehicle-manufacturing licence in Vietnam after signing a joint venture deal with a local partner yesterday. "Song Cong Diesel and Ford anticipate government approval in April and will immediately proceed with plans to form a joint-venture company to produce Ford cars and trucks in 1997," Ford said. A joint feasibility study for the plant on a site 55km east of Hanoi has been completed. Ford has declined to reveal how much it plans to invest in the joint venture, in which it is majority partner.

Several other big foreign manufacturers are applying for licences to assemble cars, trucks or light buses in Vietnam. They include Chrysler, Daimler-Benz, Peugeot and Suzuki. *Reuter, Hanoi*

Contracts

■ The Asian Development Bank has granted a loan of $77.9m to India to develop a port in the southern state of Andhra Pradesh, the Press Trust of India said. The Kakinada port project would entail the construction of deepwater berths and dredging and navigational facilities, to increase its cargo handling capacity by 3m tonnes. *Reuter, New Delhi*

■ Mesa Air, a New Mexico commuter line, has ordered 25 Dash-8-200 37-passenger aircraft from Bombardier, the Canadian aerospace group, in a deal worth US$250m. Mesa has taken options on a further 25 aircraft. *Robert Gibbens, Montreal*

■ Dyno, the Norwegian chemicals and explosives group, yesterday said its Dyno Wesfarmers subsidiary has finalised a $51m joint venture with Thai Petrochemical Industries to build Thailand's first ammonium nitrate plant. The plant will have annual production capacity of 70,000 tonnes and is scheduled to come on stream next Febuary. *Karen Fossli, Oslo*

■ ABB Asea Brown Boveri, the Swedish-Swiss electrical engineering group, has won a $120m order from Norwegian State Railways for 16 three-carriage train sets, for use on the line between Oslo and its new airport at Gardemoen. The sets, with capacity for 184 passengers, will be built at ABB units in Norway and Sweden. Deliveries are to begin in autumn 1997. *Ian Rodger, Zurich*

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Sinn Féin leader may join St Patrick's Day events but bar on fundraising could stay

US soon to set terms for Adams visa

By George Graham in Washington

The US is weighing the terms on which it will grant Mr Gerry Adams, the president of Sinn Féin, the political wing of the Irish Republican Army, a visa to join St Patrick's Day celebrations in the US next month.

The White House and leading members of Congress have welcomed Wednesday's announcement of the UK-Irish framework document as an important step towards peace in Northern Ireland, and the US is now considering how it can best prod the process along. Officials in Washington said Mr Adams has submitted a visa application. Mr Adams was for years denied entry into the US on the grounds of his terrorist links, but the Clinton administration has progressively relaxed the conditions surrounding his visits. He was first allowed to speak only in New York, then to travel to other US cities and finally to meet administration officials.

The UK would like his next visit to be tied to some commitment from Sinn Féin to decommissioning the IRA's stock of weapons and explosives, but US officials indicated they were unlikely to insist on this as a condition for granting the visa. Mr Adams may still, however, be barred from fundraising in the US.

Discussions are also continuing on precisely which festivities Mr Adams should be invited to join on March 19, St Patrick's Day, when US politicians of all ethnic backgrounds are quick to wear the green. President Bill Clinton welcomed the framework document in an official statement on Wednesday, and White House officials said they hoped the document would open the way to "an inclusive dialogue on the future of Northern Ireland."

"We continue to work with the parties to provide in a sense a third party perspective when we can to lend them encouragement," said Mr Mike McCurry, White House press secretary, adding that the most important thing the US could do to help was to support economic development in Northern Ireland.

Members of Congress who have been closely involved in Irish issues also applauded the framework document. Senator Edward Kennedy of Massachusetts said the document was "a welcome next step on the path to peace for Northern Ireland, and it offers a fair and balanced way to move the peace process forward".

The Ad Hoc Committee on Irish Affairs, a grouping of members of Congress which has traditionally supported Irish Republicanism more eagerly than the congressional leadership, urged "all parties in Northern Ireland to embrace the spirit of the Framework Document and take advantage of this unique opportunity".

Congressional aides said that Congress's swing from Democratic to Republican control had made little difference, since involvement in Irish affairs broke down more on regional than on party lines.

Businesses long for permanent peace

By Stewart Dalby in Belfast

Business leaders in Northern Ireland have given a broad welcome to the framework document on the province's future, hailing it as an important step forward in the peace process and vital to economic revival.

Sir George Quigley, chairman of Ulster Bank and a former permanent secretary at the Northern Ireland Office department of finance, said: "I said at the time of the ceasefire six months ago we needed to further the peace process and achieve a durable political settlement.

"This document takes us a step further. I am not surprised at the heated reactions. We are in the realm of ideas. But we need a stable environment if we are to achieve economic progress.

"This place has tremendous potential for business. It would be a tragedy if we did not capitalise on the opportunities offered by the peace process."

The main business organisations, the Institute of Directors, the Northern Ireland Chamber of Commerce and the Northern Ireland Confederation of British Industry have all supported the document.

Mr John Stringer, director of the Northern Ireland Chamber of Commerce, which, with 2,200 members claims to be the biggest business organisation in the province, said the document was "the next step in securing a political settlement. This is vital for our economy. Those in jobs and those unemployed want to know that there will be investment in the province."

He added: "Many of our members are small companies. A stable environment will give them the opportunity to build up new markets."

Mr Doug Riley, chairman of Northern Ireland CBI, also welcomed the framework document. "It is incumbent upon all our members to get together to discuss this document and for our politicians to try and reach a satisfactory solution for everyone involved.

"The business community and, indeed, the wider community, believe it is essential to achieve political progress leading to a widely acceptable form of government for Northern Ireland."

Mr Riley said the CBI had always argued that there had to be more and better local democracy and accountability in the province as soon as possible and that politicians should be looking for areas of agreement rather than concentrating on areas of disagreement.

It believes that expanding the economy for the whole of Ireland is in everybody's interest. The aim of CBI Northern Ireland is to deliver more jobs, more wealth and more competitive infrastructure. Political stability will help this.

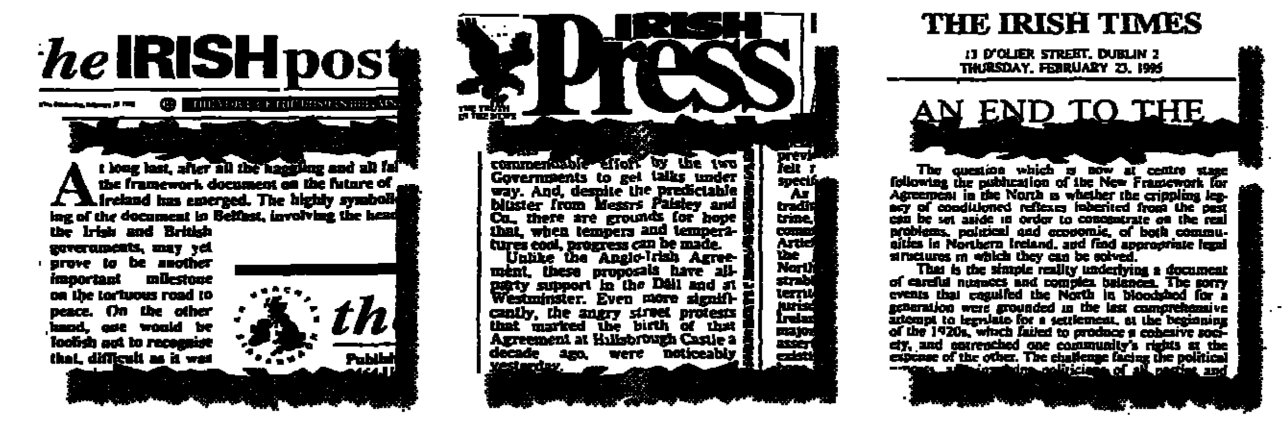
Mr Howard Hastings, chairman of the Institute of Directors in Northern Ireland, urged his members to give the document, "careful consideration."

Mr Pat Duggan, chief executive of Mackie International, a textile machinery manufacturer which is one of the province's best-known companies, said: "I am cynical of all these politicians. They are all just jostling for position. But a political settlement obviously helps business.

"I am not afraid to say I favour cross-border bodies. We need to integrate our economy with that of the south and to improve access and attract investment."

● The European Union yesterday welcomed the new framework document on Northern Ireland as a "significant step" towards a global resolution of the Irish situation, AFP writes in Paris.

The French EU presidency said the framework document was "a significant step in the peace process." France, which currently holds the six-month rotating EU presidency, also welcomed the recent agreement in principle by the EU to provide increased financial backing for the province.



Three Irish newspapers (the Irish Post, aimed at the Irish community in London, and Dublin's Irish Press and Irish Times) greeted the details of the framework document yesterday by cautioning that the peace remained fragile and much hard work remained

Pentagon blocks Lucas contracts

By Bernard Gray, Defence Correspondent

Lucas Industries, the British aerospace and automotive company, is to be barred from winning new contracts with the US Defence Department after its conviction for falsifying records of equipment it supplied to the US Navy.

The Pentagon said Lucas would remain barred until it could "demonstrate the responsibility, honesty and integrity required of a government contractor".

The company said it would appeal against the bar, which it described as "unsupportable and unjustified".

Lucas said the ban would not affect business performance. About 10 per cent of its business is with the Pentagon, but existing contracts are not affected. If the ban remains, Lucas could lose out when some contracts come up for renewal in two to three years.

Lucas admitted in January that its Lucas Western subsidiary had falsified the quality control documents on gearboxes it supplied for the navy's F/A 18 fighters. It paid an $18.5m fine.

The navy is also seeking substantial civil damages because it says the gearboxes have proved sub-standard. There have been persistent allegations in the US media that gearbox failures have caused more than 160 forced landings of F/A 18s.

Lucas has disputed the claims and said that although quality was not properly checked, the gearboxes performed above required specification. The navy has continued to take the gearboxes and the F/A 18s have not been grounded. The company has offered to make a payment to settle the civil claim without admitting liability. The navy has rejected the offer.

Lucas said the ban was "designed to bring maximum pressure to bear on the negotiations between the company and the US Navy regarding the settlement of the remaining civil action".

UK NEWS DIGEST

Future of City 'bright' despite Emu uncertainty'

The City of London would continue to prosper even if Britain remained outside a European economic and monetary union, it was predicted yesterday at a London conference organised by the right-wing Bow Group with the Association for the Monetary Union of Europe.

Mr Stanislas Yassukovich, an investment banker and former chairman of the Securities and Futures Association, said the biggest fear about non-participation in Emu for the City was the likely creation of a large Ecu-denominated bond market in Frankfurt. But he said trading in European debt would soon develop in London and it was "inconceivable" that other City-based markets and services would leave London. Instead, there was a danger that the City's global role could be vulnerable to increased competition from New York, Tokyo and possibly Singapore if Britain joined Emu, Mr Yassukovich said.

Mr Norman Lamont, the former UK chancellor, told the conference that a single currency was irrelevant to competitive business in Europe. He pointed to the success of the North American Free Trade Area as an example of a successful free trade area using separate national currencies.
Peter Norman, Economics Editor

Daewoo nears service deal

Daewoo Cars and the Boots group subsidiary Halfords confirmed yesterday that they were near agreement for Halfords' 136-strong chain of car parts and servicing centres to carry out routine maintenance of Daewoo's South Korean-built cars after they go on sale in the UK in April. The wholly-owned importer of Korea's third largest carmaker also disclosed other changes to the sales and distribution structure it announced last October. However, the changes do not affect Daewoo's fundamental approach to the project, which it claims could "revolutionise" car retailing. Daewoo itself – rather than independent franchisees – will own the dealer network, thus stripping out a tier of profit-taking. *John Griffiths*

Hotels investment warning

Hotels in the UK will have to change their image and management practices if they are to attract more institutional investment, says a report on their investment performance.

The study of 25 regional UK hotels conducted by Pannell Kerr Forster Associates found that they generated annual returns of 15.9 per cent over 15 years to the end of 1993, compared with returns of 10.7 per cent achieved by pension funds on investment in UK property. UK equities yielded 19.5 per cent per annum a year over the same period.
Scheherazade Daneshkhu

Building society reforms set

The British government will today unveil plans to ease controls on building societies in a move which would allow them to enter a wider range of activities and advance up to 25 per cent of their loans outside the housing sector. The measures would enable societies to respond more quickly to changes in the market and give them more freedom to compete with high street banks. The new regulatory regime would also make societies more accountable to the millions of members who own them.

The government statement comes in the wake of two deals which have sent shock waves through the industry. The members of the Cheltenham & Gloucester Building Society are now voting on whether to accept a £1.8bn ($2.835bn) cash bid from the Lloyds Bank group. Halifax and Leeds Permanent, two of the largest societies, are working on plans to merge and then become a public limited company. *Alison Smith*

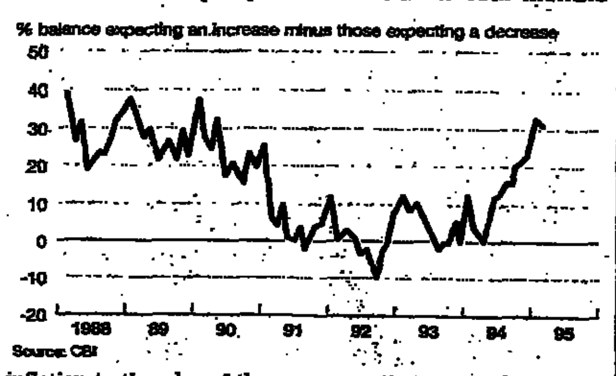
More consumer gloom predicted

Mr Kenneth Clarke, the UK chancellor, will face an increasingly difficult task keeping the economy on track and voters happy in the run-up to the next election, the Confederation of British Industry's latest quarterly economic forecast suggests.

The document, published today, says exports and investment are likely to surge, and unemployment fall below 2m in 1996. But, it adds, consumers will see little rapid improvement in their spending positions before 1996, the likely date of the next election. And if the chancellor cuts taxes ahead of the election, the CBI's forecast models indicate price rises will probably break the government's inflation target.

Even without tax cuts, the CBI notes that mounting price pressures across the economy are likely to push underlying

The trend in output prices in the next four months



inflation to the edge of the government's target to keep inflation between 1 and 2.5 per cent by the time of the next election.

One indication of these mounting price pressures emerged in the CBI's February industrial trends survey, which showed that the proportion of manufacturers planning to raise prices was unchanged from January's high levels. The CBI forecasts that consumer caution should prevent some of this price pressure seeping into the retail sector, and that underlying inflation will be 2.6 per cent this year, falling back to 2.5 per cent in 1996. *Gillian Tett, Economics Staff*

Decline of family life exaggerated, study indicates

By Andrew Adonis, Public Policy Editor

The imminent death of the traditional family is "grossly exaggerated", the Joseph Rowntree Foundation, a charitable trust sponsoring social research, said yesterday. But it called for policy adjustments to deal with changes in family structures such as lone parenthood.

The report highlights tax treatment of marriage and child-rearing – and poverty among lone-parent households – as keys to political parties' efforts to promote family values.

"The ball, in terms of creating a more 'family-friendly' society, is very firmly in the court of the policymakers," it concludes.

Drawing on wide-ranging research on trends in family life over the past two decades, the report reinforces the findings of the controversial Rowntree study on income and wealth published this month.

The earlier study dwelt on the "20 to 30 per cent" of the population who failed to gain from economic growth in the 1980s, a figure disputed by ministers. The latest report stresses the concentration of relative poverty in lone-parent households, which now constitute one in five of all households with dependent children.

Although marriage remains by far the most popular course for couples bringing up children, the report says "public policy has failed to give practical recognition to the central role of families in society".

It says that the relative tax position of low and middle-income families with children "has deteriorated further". It notes that a childless man on average earnings pays a lower proportion of his income in tax and National Insurance than 15 years ago. But for a couple with two children under 11, the direct tax burden has risen from 9 per cent of average gross earnings in 1965 to 22 per cent this year.

The report says that the proportion of the population living in married-couple families with dependent children is above 25 per cent in all parts of the UK except in a number of inner London boroughs.

But it found significant variations between ethnic groups. While 58 per cent of the total adult population are married, fewer than half of the adult black population are married, while seven out of 10 Bangladeshi, Indian, and Pakistani adults in the UK are married.

Hoodlums milk the quota system

By James Harding

The hoodlums of rural England work under the cover of darkness. A quick entry into a remote farm, an illegal purchase, an illicit payment and they are off. They trade in milk.

Tales of clandestine exchanges between dairy farmers and unregistered buyers of milk have inundated the fraud line at the Intervention Board, the government department which polices quotas imposed under the European Union's Common Agricultural Policy.

"If you believe the information we receive from our fraud line, there are disguised tankers coming into farms in the dead of night," said Mr Stephen Briggs, an official at the Intervention Board yesterday. "Our investigation includes sitting in cars in country lay-bys watching irregular activities."

The problem is how to convert surveillance and reports of milk sales on the black market into successful prosecutions. The National Farmers' Union of England and Wales is agitating for results. Mr Hugh Richards, chairman of the union's milk committee, who says he has seen evidence of secret night collections of excess milk by tankers, wants action to deter the illegal trade.

According to Mr Richards, "the system in place suits 99.9 per cent of producers. But there is a very small rogue element that trades illegally".

Convictions of the "rogue few" who sell excess milk to unregistered purchasers will stop "those people who are getting away with it and undermining the system" of milk sales by quota or payment of a £0.29 (46c) per litre premium for excess, Mr Richards said. "There are various pockets where this happens in the country – the north of England, the East Midlands and parts of the south."

The Intervention Board, which started investigating illegal milk sales last November, confirmed that it had received more than 100 calls giving details of illegal milk deals. Earlier this month the government added a support team from the Ministry of Agriculture to the eight investigators working on cases around the UK.

However, the Intervention Board warns that no court cases are imminent. The limited legal powers of the government department and the difficulty of proving criminal intent are obstacles to court action. Without the powers to stop and search vehicles getting a conviction is a complicated process.

Under European Union regulations, British farmers are allowed quotas which will allow them to meet no more than 85 per cent of UK demand. All milk sold by farmers counts against their individual quota limits, while any sales above quota are penalised through a levy of 29p a litre on farmers. Selling milk without declaring it is illegal. But many farmers complain that their production exceeds quota levels, and milk prices have risen. The black market is therefore sometimes tempting.

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FINANCIAL TIMES SURVEY

WORLD TAXATION

Friday, February 24, 1995

Administrators prepare for a more efficient future

Faced with domestic opposition to tax rises, governments are focusing on cross-border transactions in an attempt to increase revenue

Jim Kelly looks at ways in which laws are being remodelled

Tax regimes are begining to resemble each other. Driven on by the growth in cross-border transactions and multinational operations, governments are increasingly finding it necessary to incorporate many common elements within their tax rules.

Conversely, the trend highlights any differences between tax regimes. National administrations as a result have become acutely aware of the need not to be out of step, given that success in attracting inward investment can hinge crucially on the relative taxation advantages or disadvantages of setting up in one country rather than in another.

"Countries are under a lot of pressure not to be out of line with their competitors because they know it would disadvantage inward investment," Jim Marshall, head of the international tax group for KPMG in London, says.

At the same time countries are concentrating more and more on maximising the tax yield in their own jurisdictions. Transfer pricing, the methods by which multinationals determine how much of their tax bill should be allocated to each country in which they do business, has become the focus of this debate.

Yet, these develeopments are taking place, across much of the developed world, in tax regimes under acute pressure. Countries emerging from recession, are seeking higher levels of yield, but increasingly are finding that attempting to raise the levels of direct taxation presents tricky political problems, and can prove electorally disastrous.

One remedy has been for governments to involve tax payers in helping to cut costs by obliging them to take on some aspects of tax collection and administration themselves. In addition, compliance has become stricter, financial penalties have become more common, and new forms of taxation have been introduced. Tax treaties between countries and changes to domestic rules very often have as their objective the restriction or elimination of cross-border arbitrage possibilities.

Thin capitalisation, the practice whereby multinational groups place debt in overseas subsidiaries to reduce tax liability, is a good example of a practice which a number of countries have been seeking to eliminate by adopting a common approach. Germany, Spain, the US and the UK have all attempted this recently.

Corporate tax rates have tended to fall in the battle by countries to gain advantage in world markets for their companies and to attract inward investment. The UK, which led the way in the 1980s, setting the lowest corporation tax rates among member countries of the Organisation for Economic Co-operation and Development (OECD), has now been overtaken by the Nordic countries, which previously had some of the highest rates in the industrialised world.

Developing countries are also under pressure to conform to international standards and are adjusting their taxation regimes and accounting practices to bring them into line with acceptable models. Ashok Shah, Indian tax specialist at Ernst & Young in London, says: "We see big opportunities ahead in infrastrucure projects in India but the tax system will have to be amended if foreign participation is to be encouraged."

Yet, while bigger countries are increasingly being obliged to bring their tax regimes more closely into line with each other there has also been a considerable growth in the use of small low tax regimes. Within the EU, the Belgium Co-ordination Centres, the Irish Financial Service Centre Companies, and exempt company laws on Madeira are typical examples. "The big question is whether the European Commission will take any retaliatory measures," says Tony Hughes, international tax partner at Coopers & Lybrand.

Transfer pricing is one area in which tax administrations have failed to agree a common approach. During the 1992 presidential campaign, Bill Clinton claimed that \$45bn in tax revenue could be raised from foreign-based enterprises operating in the US. These companies were accused of charging too much for goods and services supplied to their US subsidiaries which, in turn, charged too little to their foreign parents, thus reducing the potential tax take in the US. There is little doubt the US will continue to adopt an agressive stance on this matter.

The prospect of harmonisation was raised in the OECD draft rules on transfer pricing released in June last year. The draft enshrines the guiding principle of international transfer pricing rules that prices charged by a company to its subsidiary in another country should be set for tax purposes on an arm's length basis – in fact, as if they were charged to an unrelated company.

But French and German business groups, with some support from their governments, objected to inclusion within the draft of provision for the comparable profits method, which US tax authorities have recognised in regulations. They were unhappy that the method is based on an assessment of the profit ratios, rather than the prices, of an unrelated company in the same business.

In June, when the OECD meets, a compromise may be found. Tax specialists believe it is possible that if the OECD makes it clear that the comparable profits method can only be used as a last resort, objections may be set aside.

If the guidelines are accepted it will be an historic step towards the adoption of a common approach on this divisive issue. The alternative is the prospect of continuing uncertainty and of companies suffering double taxation.

Within Europe, the process of harmonisation has also suffered setbacks, however. The withdrawal of the draft directive on cross-border interest and royalty payments, based on the approach adopted for dividend payments, marks a significant setback for direct tax harmonisation.

"The European Commission's recent successes have related mainly to indirect taxation. VAT, the first truly European tax, is closely harmonised, as are customs duties. As far as direct taxation is concerned, progress has been slower," says Stephan Barnes at KPMG.

Even the future of VAT is far from clear. A draft report on the proposed switch to a regime based on the "origin system", in which supplies would be taxed in the country of origin, has been delayed. "It must be assumed that the definitive regime will be delayed," says Stephen Barnes, at KPMG.

But further economic union could provide a spur for change. "Harmonisation of the EU tax systems was thought to be a dead issue once the principle of subsidiarity was introduced. However, if a single currency is adopted this is likely to increase enormously the momentum for a single tax system for those member states using the same currency," says Mr Hughes.

The present interim VAT regime in the EU has brought complaints about the administrative burdens being placed on businesses. In a number of countries around the world, governments are shifting such burdens on to the tax payer to reduce their own costs.

"The proposal to change to an origin system on January 1, 1997, based on quite different principles must instil in business a fear of once more being burdened with further complications and additional costs," says Peter Jenkins, at Ernst & Young.

Moves in the UK and in Italy towards self-assessment for personal taxation are an example of individual tax payers being asked to shoulder new burdens. While the systems are designed so that individuals can fill in their own tax returns, they also require employers to provide more information to their employees. There are fears this new tax system will create widespread confusion and result in employers having to act as unpaid tax advisers to their own workforces.

As the example of the US shows, technology offers a way of improving efficiency and cutting costs. However, some of the problems which can occur with greater use of new technology, have become evident in the UK, which is moving quickly to catch up with the US. The abandonment of plans to move towards electronic filing for corporation tax has illustrated the acute problem faced by tax authorities who demand back-up paper documentation rather than on-screen evidence. Information technology experts insist such a system will work only if paper is ruled out.

The introduction of technology will enable the UK revenue service to shed 12,500 staff in the long term. But new technology also helps shift compliance work to more specialist teams. These teams are now begining to work together as part of an international network. The EU's mutual exchange of information directive requires the establishment of VAT databases which are accessible to other member states on request. Customs authorities throughout the EU also work much more closely together on compliance now that border controls have been much reduced.

Finally, the taxpayer is being buffeted by both the simplification of tax systems and the creation of new taxes. The UK has introduced airport tax and insurance premium tax. In contrast, the Australian government has recently abandoned plans for a carbon tax after complaints from industry.

The introduction of green taxes is likely, however, to be a trend which countries around the world will follow, as concern grows over pollution and the exhaustion of the world's resources. It may be one of the few ways governments can raise more money – and argue that the tax payer is benefiting.

EUROPEAN UNION: **Jonathan Schwarz** on cross-border developments

Rough ride for harmonisation

The right to levy taxes is at the heart of sovereignty. It is not surprising therefore that tax developments in the European Union mirror the struggle between the advocates of national sovereignty for member states and the advocates of collective European decision-making.

In the direct tax field, the recent withdrawal of the draft directive on cross-border interest and royalty payments marks a turning point in European tax harmonisation. This draft directive proposed the adoption of the approach already in place in relation to cross-border dividend payments - the elimination of withholding tax between member states. Despite approval by the European Parliament, the taxation commissioner at the time, Mrs Christiane Scrivener, was unable to persuade the council ministers to accept the directive. As a result, it has been withdrawn, leaving a question mark over the future of further direct tax harmonisation by directive.

This lack of progress in harmonisation has caused the Commission to change tack. Rather than pursue harmonisation of laws, it has recently issued recommendations on the taxation of cross-border workers and on the taxation of small and medium-sized enterprises (SMEs).

The Commission identified three main problems that have tax implications for SMEs:

- Their capacity to attract sufficient financial resources;
- Their ability to cope with administrative complexity; and
- Continuity of the enterprise when ownership changes.

The Commission recommends:

- Improvement of the tax treatment of self-financing for unincorporated enterprises;
- Abolition of tax obstacles to the use of venture capital;
- Reduction in administrative complexity facing enterprises operating across borders through permanent establishments by taxing those establishments only in the country of residence of the enterprise;
- Easing the problems arising when the enterprise changes ownership by limiting the tax charge; and
- In the case of international situations, effective prevention of double taxation.

The Commission has also recommended that where individuals work in one member state and live in another, that they should not be subject to tax on this income which is heavier than if they and their families were resident in that member state. The rule is only required where at least 75 per cent of the individual's total taxable income is earned in that state during the year. This recommendation comes after the failure of the council of ministers to adopt a directive to harmonise the taxation of cross-border workers.

These recommendations carry no legal force and reveal the lack of authority on the part of the Commission in relation to direct tax matters.

However, the taxation of savings continues to be an issue on the harmonisation agenda. A proposal introduced in 1989 to establish a common withholding tax for interest earned on savings within the EU is once again before the council of finance ministers.

Although all member states are regarded as relatively high taxed jurisdictions, they all effectively act as tax havens for residents of other member states because, typically, they do not impose withholding tax on interest paid to non-resident investors in a wide range of circumstances.

The revival of this proposal has been sponsored largely by Belgium and Germany. The German finance ministry has estimated that DM300bn (£126bn) of German funds have been switched to Luxembourg in recent years following tax changes in Germany.

The move is opposed by Luxembourg and the UK who are concerned that such a system would result in a flight of capital to non-EU countries. Luxembourg, in particular, would not agree to any proposals unless the majority of other OECD countries adopted a common approach. The German finance ministry claims to have had discussions with the Swiss and Austrians.

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Another area that the Commission is considering is the possibility of proposals to eliminate tax obstacles on cross-border transfers of occupational pension assets.

The Commission is aware that where employees who are members of a pension scheme in one member state transfer the value of their pension rights to a scheme in another member state, the member state of origin usually tries to recoup any tax advantages given in respect of those pension assets.

At present, the only way of avoiding the loss of tax advantages is by leaving the pension rights in a scheme in the country of origin.

The focus of attention of the Commission in relation to tax matters has become dominated by cross-border issues, rather than harmonisation in general. Issues such as the harmonisation of the structure of road taxes are viewed in the context of their impact on intra-EU trade. The Commission has, however, been beaten to this by some regional agreements. For example, the governments of Belgium, Denmark, Germany, Luxembourg and the Netherlands have signed an agreement adopting a common system for time-related road use charges on heavy goods vehicles.

Attention in VAT matters is now turning to the prospects for a "definitive" VAT system for intra-EU trade which is intended to be in place by the beginning of 1997. The European Commission is to report shortly on its proposals.

The definitive VAT regime is expected to be based entirely on the origin basis. The precise nature of the system and indeed whether it will in fact be implemented result from the fact that the origin system favours countries that supply goods and services, rather than those in which the goods and services are consumed.

In the interim, numerous amendments to the VAT system have taken place. The Seventh VAT Directive came into force on January 1, 1995. Its principal effect is to allow the special margin scheme of accounting for VAT to become available to dealers in a wide range of second-hand goods. Previously, the scheme was only available to certain items such as cars and antiques.

One of the early criticisms of the transitional VAT regime has been the potential risk of fraud in cross-border transactions. The Commission has claimed that according to information available to it, no significant change has occurred in the nature or incidence of VAT fraud since the abolition of fiscal frontiers. The Commission continually monitors developments with a view to detecting any change in the pattern of fraud and considers that the introduction of the definitive system in 1997 is an appropriate answer to the fears of possible fraud relating to the current system, even though these fears have not been borne out in practice.

Control mechanisms in place include VAT identification numbers and an enhanced system of administrative co-operation and mutual assistance between member states.

Concern has also been expressed about the increasing complexity of the VAT system. The main difficulties arise from variations in laws between member states, particularly in the context of distance sales to non-taxable customers, transport operations, construction work, as well as cultural, artistic, sporting or scientific activities.

The Commission has set out proposals to avoid multiple VAT registrations and to avoid the cost and complexity of tax representation where possible. Generally, there should only be one person liable per taxable transaction.

One notable success for the European tax system is the entry into force on January 1, 1995, of the EU Transfer Pricing Arbitration Convention. This multilateral treaty has now been signed by all member states with the exception of the three new members. It adopts the OECD definition of arm's length pricing and authorises the possibility of arbitration in disputes between member states on allocation of profits among various entities in a European multinational enterprise.

The new Taxation Commissioner, Mario Monti, will undoubtedly have as full a programme as his predecessor.

US: **Stanley C. Ruchelman** reports

Cross-border targets

Tax policy in the US continues to be problematic for persons engaged in transnational business. The administration and many members of Congress accuse both US-based and foreign-based groups of not paying their fair share of US tax on profits derived from the US.

According to these officials, foreign-controlled enterprises are avoiding US tax by means of artificially high charges from foreign affiliates and US-based enterprises are achieving the same goal by not charging foreign subsidiaries enough. Some observers suggest that the concern is really directed at the nationality of the tax payer rather than the arm's length nature of the intercompany transaction.

The policy of the Congress and the administration is not likely to change soon. The government is strapped for cash and both the Republican-controlled Congress and the Democratic administration have promised to reduce the tax of their respective constituencies. The tax reduction must be funded by reductions in expenditures and new sources of revenue. Persons involved in foreign trade may be easy targets for tax increases.

The internal revenue service (IRS) routinely screens tax returns which report transactions between US businesses and foreign affiliates. These transactions must be identified on special forms. Using this information, international examiners of the IRS often propose transfer pricing adjustments which raise tax and form the basis for the imposition of penalties that can reach 40 per cent of the increased tax. For the examiners, it does not matter whether the group is based in the US or abroad.

The IRS believes that many foreign investors in the US claiming to be treaty residents are not entitled to treaty benefits. Accordingly, strong consideration is being given to a requirement under which tax payer identification numbers would be required of any investor wishing to avoid withholding tax. Discussions have taken place with representatives of the brokerage industry and with foreign banks.

Congress has been instrumental in limiting the extension of income treaty benefits to companies resident in a tax treaty jurisdiction but owned by persons resident in a third country. The branch profits tax rules of domestic law override existing tax treaty provisions when a foreign corporation is not a qualified resident of a tax treaty jurisdiction. A series of complex tests must be met before a company is considered to be a qualified resident. These tests served as the model for the limitation of benefits article under recently negotiated income tax treaties. This provision generally applies to all treaty benefits, including withholding tax reductions and the need for a permanent establishment to exist before business profits may be taxed.

Congress also enacted an earnings stripping rule under which excess interest expense of US subsidiaries of foreign-based groups are not deducted currently. As originally enacted, the limitation applied only to interest paid to a related foreign party. In 1993, the scope of the rules was broadened to apply to interest arising from all borrowings supported in any way by the credit of a foreign parent. This affected interest on borrowings in which the guaranty or acknowledgment of a foreign parent was only an administrative requirement. It also affects interest on loans that existed before the enactment.

At the same time, Congress has hampered the ability of US-based corporations to claim a meaningful benefit from the foreign tax credit. The credit alleviates double taxation for profits that are earned abroad, taxed by a foreign government, repatriated to the US and taxed in the hands of a US shareholder.

Under the limitation rules that apply, the foreign tax credits and the foreign source income must be separated among an infinite number of categories, or baskets, of foreign income. The technical result is an incredibly complex mechanism that few persons other than tax accountants understand. Because not all credits can be utilised under this system, operating income on financial statements must be reduced.

Congress has also eliminated benefits derived by US-based groups which operate abroad and retain profits in overseas companies. Unless a company has a substantial investment in machinery or equipment, a foreign company that retains profits overseas will be categorised as a "passive foreign investment company". At the time retained earnings are distributed, an interest charge will be imposed on the benefit of deferral. To avoid the interest charge, deferral of tax must be relinquished.

Even if a company is not caught in this web, the opportunity to defer US taxes is reduced further through a provision that accelerates US tax on groups that invest overseas earnings of controlled foreign corporations in excess passive assets. A deemed distribution takes place if more than 25 per cent of a controlled foreign corporation's assets consist of investment-type assets.

Both US-based and foreign-based groups have been targeted for tax increases by Democrats. One proposal allows the US to tax foreign-based groups on a formulary basis similar in principle to the worldwide unitary method of taxation previously used by many states. The Treasury Department would be required to include language in future treaties allowing tax to be computed on a formulary method.

Another proposal replaces the foreign tax credit with a deduction. Also, income of controlled foreign corporations would be taxed to US shareholders as earned and restrictions would be placed on the use of arm's length transfer pricing by multinationals. The latter proposal is expected to raise US $28.7bn annually.

Finally, a soak-up tax has been proposed for US shareholders of controlled foreign corporations that manufacture products abroad. Additional limitations would be placed on the foreign tax credit.

During the 1992 presidential campaign, the president claimed that $45bn in tax revenue could be raised from foreign-based enterprises operating in the US. Although that assertion ultimately became inoperative, the administration continues to look at the cross-border investor as a source of revenue.

In the president's recent budget, middle class tax breaks are to be funded in part by three provisions. First, the administration proposes to tax foreign individuals who come to the US and who eliminate tax on investment income through the use of a grantor trust funded by a foreign individual. For technical reasons of US law, trust distributions to US residents from this type of grantor trust are treated as tax-free gifts from the grantor. This rule would be reversed. Unless the grantor is taxed in the US, the gifts will be reclassified as income. Second, the administration proposes a departure tax for wealthy US citizens and non-citizens who are long-term residents. If enacted, the tax would be effective as of February 6, 1995.

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OECD corporate income tax rates (January 1, 1995)

Country	Top tax rate (%)	Note
Australia	33	
Austria	34	
Belgium	40.17	1
Canada	44.3*	2
Denmark	34	3
Finland	25	4
France	33.33	5
Germany	58.95/46.13*	6
Greece	40	7
Iceland	33	8
Ireland	40	9
Italy	52.2	10
Japan	51.6	11
Luxembourg	40.29*	12
Mexico	34	
Netherlands	35	13
New Zealand	33	14
Norway	28	15
Portugal	39.6	16
Spain	35	
Sweden	28	
Switzerland	28.5*	17
Turkey	42.8	18
UK	33	19
US	40*	20

* Approximate.

Notes: Simple comparison of tax rates is not sufficient for assessing the relative tax burdens imposed by different governments. The method of computing the profits to which the tax rates will be applied (tax base) should also be taken into account. Payroll taxes, social security taxes, net wealth taxes, turnover taxes and other taxes not levied on income are not reflected in the above rates

Source: KPMG

Technical details

1. Belgium: A lower rate applies to companies owned more than 50 per cent by individuals. The tax rate incorporates a "crisis" levy of 3 per cent and applies as of the tax year 1994 (i.e. accounting year ended December 31, 1993).
2. Canada: Basic federal tax of 28.8 per cent (including surtax) plus provincial tax. The total effective rate ranges from 37.7 per cent to 45.8 per cent (30.7 per cent to 38.8 per cent for manufacturers).
3. Denmark: Corporations must either pay corporation tax on account during the income year or pay a surcharge. There are no local taxes on corporations.
4. Finland: In 1993 municipal tax was abolished and national income tax set at 25 per cent.
5. France: Long-term capital gains are taxed at only 18 per cent, provided that the balance (82 per cent) is retained in the company as a long-term reserve. There is a proposal to increase this rate to 19 per cent (with effect from January 1, 1994), but to date this has not yet been adopted by the French parliament.
6. Germany: of the two rates quoted, the first applies to retained profits and the second to distributed profits. Both rates include corporate tax at 45/30 per cent, and trace tax (which can be between 12 and 25 per cent). From January 1, 1995, the corporate tax rates for both retained and distributed profits are increased by a surcharge of 7.5 per cent of the corporate tax.
7. Greece: The 40 per cent rate applies to unlisted companies with bearer shares and to foreign branches. All other companies are subject to a rate of 35 per cent. Discounts of 5 per cent are allowed to companies which pay their corporate tax in a lump sum at the time of filing the tax return. A 3 per cent surcharge applies to gross rental income.
8. Iceland: Rate shown for 1994/5 applies to limited liability companies. Rate for unlimited liability companies is 41 per cent.
9. Ireland: Most manufacturing and many service companies are effectively taxed at 10 per cent. Closely owned companies suffer a surcharge at an effective rate of 12 per cent on undistributed investment and professional income.
10. Italy: Corporate income tax rate at 36 per cent plus local income tax at 16.2 per cent.
11. Japan: Includes corporate income tax (37.5 per cent), business tax and prefectural and municipal tax.
12. Luxembourg: Includes municipal tax at effective rate of 9.09 per cent (rate varies). The surcharge has increased from 2.5 per cent to 4 per cent for the 1995 tax year.
13. Netherlands: The first Fl 100,000 of taxable profits is taxed at 40 per cent.
14. New Zealand: 38 per cent for a branch of a foreign company.
15. Norway: Comprises 11 per cent provincial taxes, plus 17 per cent income tax on behalf of tax equalisation fund.
16. Portugal: Includes municipal tax at 3.6 per cent.
17. Switzerland: The Swiss total corporate tax is made up of federal, cantonal and municipal taxes. The rates shown are the pre-tax rates for an ordinary company in Zurich. These rates are fairly typical. The effective total rate can range from 12 to 31 per cent.
18. Turkey: The effective rate is calculated at 25 per cent corporation tax, plus 20 per cent income withholding tax on the after tax amount, plus surcharge of 7 per cent.
19. UK: There is a small companies rate of 25 per cent applicable to companies with taxable profits below £300,000 and marginal relief on profits up to £1.5m.
20. US: Typical effective rate, comprising basic federal rate of 35 per cent, plus state and municipal corporate income taxes (which can range from 0.7 to 10 per cent). Total marginal tax rate changes from 35 to more than 40 per cent.

EU LAW

Challenging legal questions

The single most profound impact of the establishment of the European Union is that it has created, as the European Court of Justice has said, a "new legal order in international law for whose benefit the states have limited their sovereign rights, albeit within limited fields and the subjects of which comprise not only the member states but also their nationals".

Community law confers rights on individuals to which national law must give effect. Therefore, to the extent that the tax rules of member states are contrary to European law, tax payers may not be bound by them.

Tax payers are now becoming increasingly willing to challenge the validity of the tax laws

Although the basic principles have been established for some time, tax payers are now becoming increasingly willing to challenge the validity of the tax laws of member states in the European Court of Justice. The standards to which tax laws must adhere to withstand this challenge are now being applied with increasing frequency.

Generally, the Treaty of Rome is silent on the question of direct taxation. Article 220 requires member states to endeavour to eliminate double taxation by agreement between them. On the other hand, the Maastricht Treaty does refer to direct taxation. Indeed, Article 73D authorises member states to distinguish between residents and non-residents for tax purposes.

The Company Tax Directives therefore are authorised largely on the basis of Article 100 of the Treaty of Rome which permits the harmonisation of laws generally to create a single European market.

As a result, the cases which are brought to the European Court of Justice on direct taxation inevitably involve the question whether the tax laws in question impinge on basic European rights such as non-discrimination, as well as freedom of movement of labour, capital, goods and services. VAT cases usually measure compliance with directives.

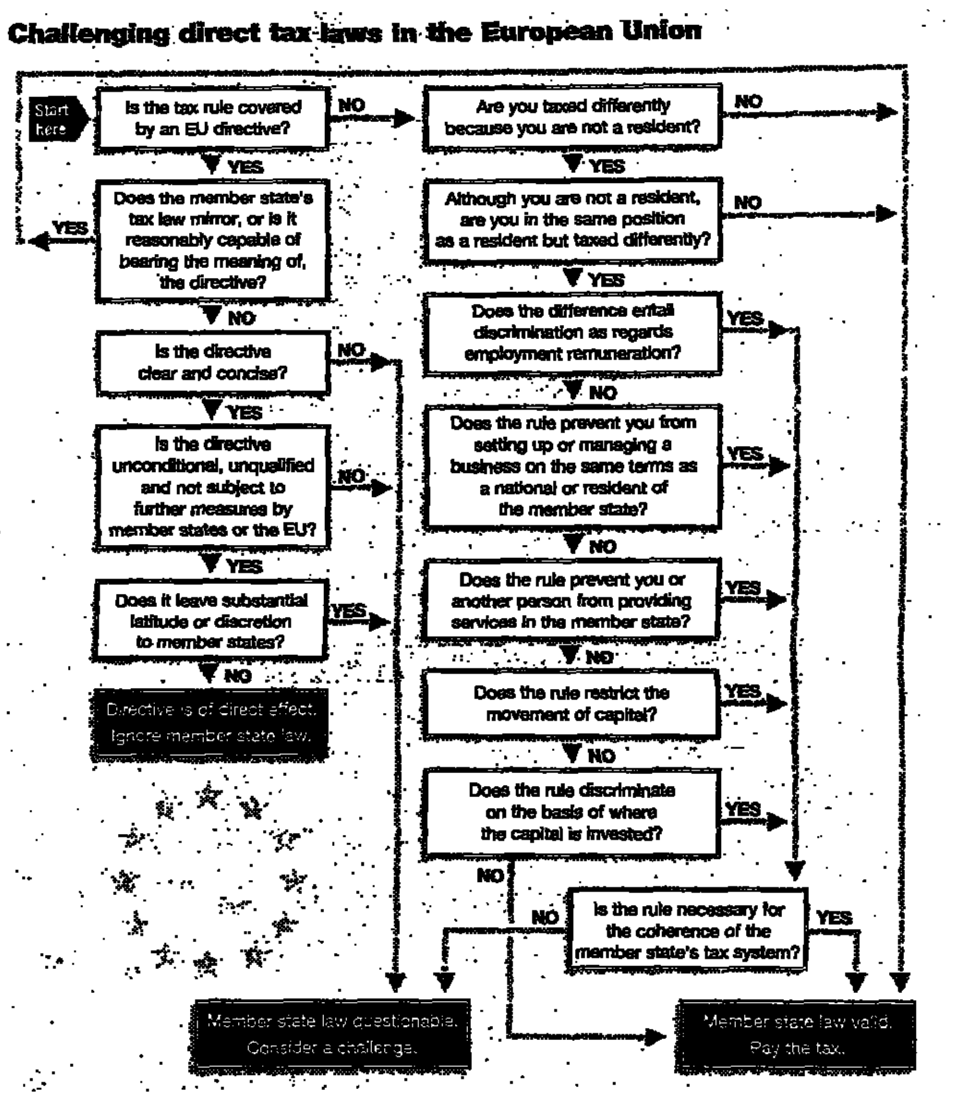
In the case of VAT, there are some 18 VAT directives, as well as numerous other directives and regulations which govern. In the case of company tax, there are only two directives.

VAT, on the other hand, being a creature of European law is specifically regulated by Articles 95 to 99 of the Treaty of Rome which prohibit any form of indirect taxation that does not comply with European law.

The European Court has not hesitated in striking down tax laws that infringe community principles. Recent examples of this include discriminatory transfer taxes in the Netherlands and the refusal to pay interest to non-residents who overpaid their taxes in the UK. The court only last week outlawed German tax rules which discriminated against cross-border workers. This ruling will serve as a further warning to governments to ensure that their tax laws are drafted in accordance with fundamental European principles. It will also encourage tax payers not to necessarily accept taxes at face value, but to test their validity before the Courts.

Jonathan Schwarz

Challenging direct tax laws in the European Union



TRANSFER PRICING

Profit-split rules lead to clash

The past 12 months have proved to be something of a watershed in the area of transfer pricing. In the US, the Supreme Court upheld the constitutionality of the California unitary tax in the Barclays Bank case. Following on from this, proposals have emerged in the US Congress for a form of unitary tax at the Federal level to replace the traditional approach adopted to transfer pricing in US tax law.

Within a month of the Barclays Bank decision, the IRS issued its final transfer pricing regulations which took eight years to devise. The process caused uncertainty and anxiety among tax payers in relation to earlier proposed and temporary regulations.

The OECD, not to be upstaged by this, immediately released a draft of its Transfer Pricing Guidelines for discussion purposes. It represents a thorough overhaul of the earlier Guidelines which date back to 1979.

On the European front, the EU Transfer Pricing Arbitration Convention signed in July 1990 has now come into effect.

This flurry of governmental and inter-governmental activity highlights the prominence given to the issue of allocation of income for tax purposes between related entities in different countries.

The concept that related parties should be treated for tax purposes as if they are unrelated finds almost universal acceptance. There is, however, some difference of opinion about what that means in reality and how this should be determined. In particular, so-called profit-split methods which form part of the US Transfer Pricing Regulations do not find favour among other OECD member countries, particularly in Europe.

Critics of these methods insist that arm's length pricing requires analysis to take place on a transaction by transaction basis, rather than by an examination of overall profitability. The OECD's position on this generally is more ambivalent. While rejecting unitary and global formulary apportionment methods, the OECD does recognise that in certain exceptional circumstances profit split methods might be acceptable. The Committee on Fiscal Affairs intends to follow closely the use of such methods by member countries to provide more precisely agreed guidelines on their application as experience develops.

A further divergence in opinion between Europe and the US on this issue relates to the allocation of administrative resources in dealing with transfer pricing examinations and disputes. This has become an important priority for the US administration, which has deployed considerable resources into this field.

It has not achieved the same degree of priority among European tax administrations where the approach has been one of reaction to US initiatives. The European Commission has recently confirmed its commitment to the arm's length principle for transfer pricing purposes. The Commission has also noted that the number of European companies that had apparently been facing adjustments according to a leaked IRS document was in reality small compared to the number of European businesses operating in the US.

The Commission has indicated that it has no objection in principle to the deployment of additional resources to transfer pricing provided any adjustments are in accordance with the arm's length rule and the administrative effort involved for the businesses concerned is not disproportionate.

European reaction to the Barclays Bank case has similarly focused on commitment to the arm's length principle. The UK has issued a warning that the Barclays Bank decision should not be viewed as a licence to reintroduce worldwide unitary tax on UK-owned companies. UK retaliatory legislation is to be retained as a deterrent.

Tensions in transfer pricing

The OECD Guidelines are a thorough overhaul of its earlier guidelines dating back to 1979

exist not only between the US and Europe. The Japanese National Tax Administration has recently proposed a US$145m tax adjustment for Coca-Cola in relation to royalties allegedly overpaid by Coca-Cola's Japanese subsidiary. Procter & Gamble's Japanese subsidiary has also been assessed to US$9.5m in taxes and penalties relating to products exported to affiliates in Asia. Commentators believe that this may be a start of increased enforcement by the Japanese tax authorities.

In many cases, the multinational company is caught up in disputes between tax authorities on the allocation of income between them.

The European Union Arbitration Convention aims at providing a method for resolving these issues. Where tax administrations in the EU are unable to agree on income allocations, the matter may be referred to an arbitration panel for consideration.

The Arbitration Convention is to run initially for a period of six years to test its feasibility. Similar arbitration clauses are also found in new tax treaties such as the Protocol to the US-Canadian Treaty and the US-German Treaty.

Despite these many developments, the subject matter is far from exhausted. The OECD intends to release two further parts to its Guidelines. The first will cover documentation, intangible properties, services and administrative rules. The second part will comprise special topics such as permanent establishments, thin capitalisation and cost sharing.

Jonathan Schwarz

THIN CAPITALISATION

New laws limit profit shifting

Tax considerations form part of any multinational group's financial strategy. Loans play an important role in this. The reason is that the tax cost of intra-group debt financing is usually less for the group overall than equity finance.

It also raises a problem for governments relating to the delimitation of taxing jurisdiction between the country of payment and receipt of the interest. In particular, in an international context, the ability to deduct interest on loans made by a shareholder to an overseas subsidiary may produce considerable tax savings. The interest expense is deductible and therefore not subject to corporation tax in the hands of the subsidiary.

In those countries that impose further tax at the shareholder level, this second level of tax is similarly avoided. Furthermore, many bilateral tax treaties either eliminate or reduce withholding taxes on interest. The net result may be a significant loss of revenue for the tax administration where the subsidiary is located.

Thus, opportunities arise for profit shifting in the form of debt service payments. This may be done not only through loans from the parent to a subsidiary, but between any members of the multinational group. Profits may be shifted from countries of high tax to those of low tax or to group members with tax losses.

Similar issues may arise in the purely domestic context, although the issue is often less serious because in most cases, the interest payments will still be subject to tax. Double taxation at the corporate and shareholder level may, however, be avoided.

As a result, many countries now limit the amount of debt that a subsidiary – particularly one that is foreign owned – may borrow by reference to its equity base. This is sometimes done by reference to general transfer pricing principles. Countries are, however, increasingly introducing specific laws on this subject.

Most recently, the UK 1995 Finance Bill has introduced thin capitalisation provisions. While the UK position may not be significantly different for UK companies with parent companies located in countries with which the UK had tax treaties, it represents a liberalisation for parent companies in non-treaty countries. Previously, the UK rules applied only to foreign-owned companies and it is suspected that the real reason for the introduction of these rules is to avoid the UK rules being attacked under European law.

One of the principal difficulties in dealing with this issue is to determine the debt load that is acceptable for companies which are financed by related parties. A number of countries have opted for fixed formulae in their legislation. For example, Canada and Australia have adopted a 3:1 debt to equity ratio. France generally applies a 1.5:1 ratio. In some cases, there are different ratios for different businesses.

Other countries such as the UK have a more flexible approach based on the arm's-length concept. These criteria include the appropriate level or extent of the borrower's overall indebtedness and whether it might be expected that a borrower or a lender would become parties to the transaction, and the rate of interest and other terms that might be expected to be applicable to such transactions. Unfortunately, the UK has not provided any clear guidelines.

The flexible approach is attractive because it allows variations to take into account special circumstances such as financing requirements during a start-up phase for new investments.

As a commercial matter lending criteria also vary according to general economic conditions. On the other hand, the lack of acceptable ratios or safe harbours brings considerable uncertainty to the tax affairs of multinational businesses. Other differences relate to the particular type of business. For example, the financing of property is different from the financing of banks.

Other difficult issues relate to definitions. The question of what qualifiec as capital is an issue which is addressed, for example, in the recent German thin capitalisation rules where fixed ratios are applied. No definition of capital is provided in the UK rules where capital including reserves of a company are merely factors to be taken into account in measuring its borrowing ability.

Similar definitional issues arise in relation to debt. The UK rules only refer to interest payments on securities. Other systems take into account trade credits or other forms of indebtedness. The OECD believes that any form of indebtedness should be included.

It is not uncommon for multinational groups to seek to exploit differences in categorisation of particular financing transactions. There is a possibility that the same transaction could be viewed as a loan in one country and as an equity contribution in the other. Typically, where this happens, the multinational group will seek an introduction in the country of payment. In the country of receipt, they may seek to have it categorised as a dividend, so as to benefit either from tax exemptions or foreign tax credits. The UK has recently enacted rules to try to limit this and the United States now requires the same categorisation in the US as is adopted in the other country.

Other difficult issues which are addressed with varying degrees of success include a multiplicity of arrangements such as back-to-back financing to circumvent thin capitalisation rules.

Jonathan Schwarz

SELF-ASSESSMENT: **Jim Kelly** explains the new rules

Nasty surprise lurks ahead

Tax experts who regularly examine the UK Chancellor of the Exchequer's speech on Budget day pride themselves on being able to spot what is known in the trade as the "lurker" – the one issue which appears to be inconsequential but which history will count as critical.

This year's "lurker" was self-assessment, the new tax regime which will come fully on stream in 1996-7, catching out nearly 9m tax payers. While "SA", as it is called, may be old news in many parts of the world, it is likely to prove an uncomfortable surprise for many in the UK.

Although other tax regimes, principally those in the US, Australia, Ireland, and New Zealand, are further down the SA road, there will still be considerable interest in how the UK authorities make the system work – and particularly how they harness developments in new technology to make it work efficiently.

Tax authorities welcome SA because it shifts some of the costs of administering tax cn to the tax payer, leaving room either to reduce bureaucracy, or to improve policing, thus increasing revenue from compliance. Business, and the individual, may complain that the burden is too great but the trend towards SA seems unstoppable. Governments also claim that SA "empowers" the taxpayer.

In the UK, the Inland Revenue is making tremendous efforts to ensure that the system is user-friendly. At the same time it is relying heavily on projected improvements in information technology to bring about savings. The recent announcement that the Inland Revenue is to cut 12,500 jobs by 2002 reflects, to a large extent, the impact of SA on the administration of tax.

So what, briefly, does SA involve? SA is a new tax system, with a new set of tax forms, and a new set of payment dates. Of those who return a tax form, and who will be caught by the new legislation, half are self-employed and half are employees. They include business partners, directors, and employees and pensioners with complicated tax affairs.

Kenneth Clarke's Budget speech last year contained a "lurker"

SA has several basic building blocks but essentially it is founded on the assessment of tax using figures provided by the tax payer. Tax payers are invited to assess their tax liability on the forms provided, but this is not compulsory. Everything else is compulsory. The new system is based on current year assessment, meaning that the tax bill for any one year relates to the income in that same year. Therefore it brings together all income and capital gains, for taxing at one time. By contrast, the present system has different payment dates, for different years, for different types of income.

The new system has a set of payment dates which are fixed. Three payments are made in a year. Two are due on January 31 in one single transaction: they are the first payment on account for the current year and a final payment, or refund claim, for the previous year. The second payment on account is due on July 31.

For example, a tax payer with income tax liability of £5,200 for 1997-98, the first year of current year assessment, would pay £2,600 on January 31, 1999, and £2,600 on July 31, 1999. If the actual tax liability for 1998-99 is found to be £5,600 then on January 31, 2000, the taxpayer would pay £400, the balance for the previous year, and £2,800. On July 31 the taxpayer would pay the second instalment of £2,800. And so on.

The system is based on idea of "process now, check later" in that, apart from obvious errors, the tax payer's figures are accepted. However, all returns will be checked but only a sample will be reviewed and tax payers interviewed. Such inquiries will usually have to begin within 12 months of the due date for the return.

There is also a system of penalties. The time lag in penalties worries many observers. John Whiting, a tax partner at Price Waterhouse in London, points out that the most onerous part of the penalty system may prove to be the imposition of interest on payments made some time after the self-assessment form is filed.

He also points out that other SA systems around the world usually involve a *refund* to the tax payer because the process involves initial overpayment – there is therefore an inbuilt incentive for the tax payer to file early. No such incentive exists in the UK system.

The good news for honest tax payers is that the new system should give trained inspectors more time to watch for tax avoidance. With the more mundane tax administration tasks either computerised or farmed out to the tax payer, the Inland Revenue will concentrate on targeting tax dodgers.

There are also significant burdens implicit in the new system. Employees, confused by the system, will turn to employers for guidance. What is more, employers will have a statutory duty to provide employees with much more detail about the way in which they are paid – particularly in terms of benefits in kind.

After the publication of the draft law which puts the Budget into effect, the Confederation of British Industry, the employers group, said: "The cost implications in terms of staff resources and time have raised substantial worries for member companies." The Institute of Directors echoed such anxieties – particularly for small businesses.

The success of self-assessment will depend heavily on progress in another development – the electronic lodgement system. This is being tested in a pilot scheme and allows tax returns to be filed from a computer screen direct to the Revenue. The savings here would be huge.

The system's development is essential to the Revenue's strategy. Recent problems with the pilot have emphasised the importance of simplifying tax returns and eliminating the need for back-up documentation. However confident the Revenue may be, most observers are concerned that the timetable set for development may be too tight.

TECHNOLOGY AND TAX

Keyed up for a revolution

Information technology is having a profound impact on the administration of taxation. In the UK, the loss of 10,000 jobs over the past few years in the Inland Revenue and the planned further 25 per cent reduction in personnel over the next three years is attributable in part to the efficiencies which result from new technology combined with the introduction of a self-assessment system.

While the UK may have been behind other countries in introducing new technology, this rapid modernisation illustrates the revolution in the administration and collection of tax.

The filing of tax returns, assessing of liability and collection of tax amounts to an enormous data processing operation ideally suited to computer applications.

The UK 1995 Finance Bill foreshadows a legal framework for the electronic lodgement of tax returns. In the 1994 Budget, the government proposed a pilot scheme involving company tax returns. This has now been abandoned because of lack of interest among the accounting firms.

Several countries such as the US and Australia have had successful programs for some years permitting the electronic filing of returns in the case of individual taxpayers. The UK experience is likely to be a short-term blip in the inevitable move towards electronic fil

The maintenance of a vast amount of information and the ease of access facilitates compliance programmes which would otherwise be impossible. The matching of interest paid by banks to their customers with the receipts returned by those customers is a good example of this.

In the international context, the ability of tax administrations to exchange vast amounts of information on tax payers with each other moves international compliance work into new realms of possibility. The US and Canada have for many years had a programme of automatic exchanges of information.

Thus, exchange of details of interest payments made by US banks to Canadian recipients and vice versa has been made possible by the use of modern technology.

Within the European Union, the mutual assistance regulation is aimed at preventing VAT avoidance and fraud arising out of the single European market.

It requires member states to establish databases with the details of VAT payers in each member state. The VAT authorities in each member state are required to either give direct access to their counterparts to the databases or to provide the information very quickly on request.

One of the unanswered questions in relation to the increasing use of computers to store information about tax payers relates to security. The ease of access and of transferability means that substantial amounts of confidential information relating to tax payers could become available to unauthorised persons. This anxiety has been exacerbated by moves to privatise the information technology elements of tax administration.

The amount of new tax law each year means that companies and their advisers are permanently involved in keeping up with new developments. In the international context, this is particularly difficult and the information requirements increase exponentially with the number of countries in which an enterprise operates.

Publishers of tax materials have been quick to capitalise on the ability of computers to store and permit the rapid retrieval of extensive amounts of information.

The vast majority of publishers now offer tax databases on CD-Rom or similar retrieval systems. These are supplemented by online database services. These moves are being mirrored by official publishers. For example, the UK Inland Revenue has recently published two manuals dealing with tax on banking and insurance, both of which are available only on floppy disk.

Most tax data systems are restricted to national tax laws. In the context of international sources, the International Bureau of Fiscal Documentation remains the only source in electronic publishing devoted entirely to international issues. It maintains CD-Rom databases on European and Latin American taxation, as well as bilateral tax treaties. Smaller databases include corporate tax and cross-border payments in OECD countries.

Other publishers have ventured into this field, such as Deloitte Touche Tohmatsu which produce a basic database on corporate and withholding tax rates in some 40 countries.

The use of information technology to manipulate data for tax planning purposes remains fairly limited at present. Some of the principal international accounting firms have developed programs, particularly in the field of expatriate taxation. These include the KPMG "Expatriate" program and the Price Waterhouse "IAMF" program. Both aim at calculating the tax and social security cost of sending employees to work in various countries.

On the corporate side, Touche Ross maintains a system which is for internal use only. Comtax AB of Sweden remains the only supplier of publicly available corporate international tax planning programs.

Such programs provide "what if" analysis and help generate possibilities that tax advisers or managers may not immediately consider.

The loss of jobs in tax administrations due to the introduction of technology has not been felt in the private sector. However, the trend is clear and in the long term, it is likely that technology will begin to impact on tax advisers, particularly in computational and routine areas.

Jonathan Schwarz

MANAGEMENT

BA is using scenario planning to prepare executives for the unexpected, says **Michael Skapinker**

Plane talking

When the British Airways customer relations team was invited to spend a day talking about the future of the world the response was a collective groan.

Customer relations had enough difficulty dealing with immediate problems and complaints. A full day talking about what might happen in the next century seemed a waste of time.

By the end of their one-day workshop, however, the team had decided to introduce a single database to deal with customers around the world, to improve BA's skills in Asian languages and to introduce interactive television screens into airport lounges.

The workshop was part of a drive by BA to get its senior managers to prepare for an uncertain future. The airline has drawn up scenarios of how the world might develop over the next decade. By early summer, about 300 managers will have attended workshops to develop strategies for the changes the airline might confront.

"This is a very immediate business," says DeAnne Julius, BA's chief economist. The aircraft landing in quick succession on the runway outside her office at London's Heathrow airport emphasise her point that it is difficult for staff to tear themselves away from the everyday business of selling aircraft seats, flying passengers around the world, and worrying about safety, delays and unaccompanied minors.

She says annual planning meetings do little to help people think about what might happen a decade from now. In many companies, she says, people see the future as being largely similar to the present. They have difficulty envisaging dramatic change. She says: "We had to provide a way of taking people out of their day-to-day environment."

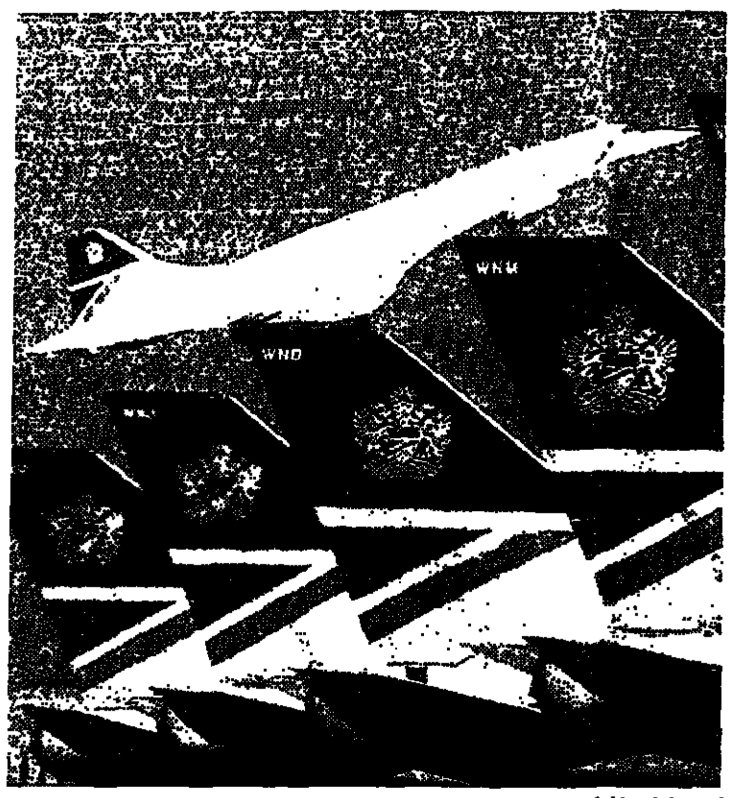
To develop its scenarios of the future, BA assembled a team of 10 managers from its marketing, government affairs and corporate strategy departments.

The team questioned people inside and outside the airline about past shocks the industry had suffered, what changes they expected in the future and what questions they would most like to ask about the shape of the world in 2005.

The team then drew up two scenarios of possible developments over the next 10 years. They were:

● Wild Gardens. This is a world in which market forces are unleashed. Asian markets grow rapidly. The US, after a period of strong growth, falls into a long recession at the beginning of the next century.

In the UK, the Conservatives win a fifth election victory in 1996 but remain divided over Europe. The European Union is enlarged eastwards but there is no agreement on a single currency.



Ashley Ashwood

Flying high: BA managers are considering the future of the world

The European Commission, however, takes over negotiation of airline agreements from member governments. It reaches an Atlantic Open Skies agreement which gives EU and North American airlines free access to transatlantic routes and some access to US and European domestic airports.

● New Structures. This scenario is more stable, giving governments greater control. Asia's rise proves slow.

A Labour government is elected in the UK, which joins France and Germany in promoting European integration. The EU agrees on a single currency, the Euromarque, and promotes integrated air traffic control and a high-speed rail network.

What is important is that participants begin thinking about how to deal with the unexpected

There is increased commitment to the environment.

In the US, President Clinton and the Republican Congress agree to work together to promote investment and increase productivity. Taxes are increased and defence expenditure is cut. There is a security crisis in Asia involving North Korea. China suffers unrest after the death of Deng Xiaoping. Investment in Asia is reduced.

Julius accepts that elements of both these scenarios could be wrong and that things might happen which are not envisaged in either. She says what is important is not the precise detail of the scenarios but that participants in the workshops begin thinking about how to deal with the unexpected. She compares the workshops to pilots' flight simulators, helping to prepare managers for any eventuality.

Richard Hill, head of customer relations, says his management team's scepticism began to evaporate when the scenarios were outlined. They were asked to come up with ideas on how to deal with with them.

New structures, the customer relations people thought, would result in more emphasis on ethical issues. Customers would expect to be treated better. The customer relations team is now thinking about a charter setting out what passengers can expect.

They also felt customers would demand more personal attention. BA plans to try out interactive screens this year, allowing customers to raise problems with a staff member whose face they can see. They have also decided the airline needs a single database to deal with customer demands, so that BA staff have the same information on passengers wherever they are in the world.

Expansion in Asia, the team felt, would mean they would have to forget about English being the international language. If the wild gardens scenario comes about, Hill says, BA will have more customers speaking Asian languages than native English speakers.

BA is now talking to Qantas of Australia and USAir, both carriers in which it has a stake, about how to deal with the consequences. Even if Asia develops more slowly, Hill believes that language skills will be important.

Jamie Cassidy, BA's operations strategy manager, says his team also came out of its workshop with strategies which will be important regardless of whether the scenarios prove correct.

The operations group decided to increase the speed with which it can develop new airline services. It also wants to integrate its resources with Qantas and USAir, so that all three can respond more quickly to the unexpected.

Although the workshops have been for managers only, the scenarios have been outlined in the staff newspaper. Julius says she hopes the workshops will introduce a new vocabulary to the company. Already, she says, when managers are discussing a strategy, one will say: "Yes, but what happens under wild gardens?"

Are consultants worth their weight?

Tony Jackson worries that this group of practitioners is growing faster than its clients

Is the management consulting industry getting out of hand? Earlier this week one of the world's biggest practitioners, Andersen Consulting, reported a 20 per cent jump in revenue for last year to $3.5bn (£2.25bn). This year, says Andersen's managing partner George Shaheen, growth could be higher again.

Nor is this a mere cyclical phenomenon. Looking further ahead, says Shaheen, his worst case scenario is growth of at least 10 per cent. That, he adds, is "almost a no-brainer". He continues: "I'd like to see the bottom at around 15 per cent. On the high side, we should be able to assimilate growth in the mid-20s."

These are growth rates the average corporation can only dream of. Nor are they untypical of management consultancy as a whole: last year, by one estimate, revenues for the industry rose 17 per cent. It seems to follow that consultants are growing a good deal faster than the clients who pay their fees. If they are getting a bigger slice of the pie, who are they taking it from?

Some of the extra revenue will come from new business in developing markets, but by no means all. Andersen enjoyed 23 per cent growth last year in the US, which is its home market and ought logically to be its most mature. Corporate America, meanwhile, is estimated to have increased its sales last year by less than 10 per cent.

The implication that companies are paying out a higher proportion of scarce resources in consultants' fees is one the profession is reluctant to concede. According to Shaheen, "companies know they have to re-invent themselves, and that means investment. I don't think it's a re-channelling of dollars that used to be spent internally".

But, as he admits, it seems logical to suppose that at least some of the money comes out of shareholders' profits or out of corporations' capital investment budgets. There is a further obvious source: company payrolls.

Almost 30 per cent of Andersen's revenues last year came from corporate re-engineering. As a process for improving efficiency, re-engineering will normally mean job losses. To that extent, the profession will be paid out of the wages of the victims. Indeed, some of those who are now consultants may be former victims of re-engineering themselves.

George Shaheen: 'Companies have to re-invent themselves'

There are signs that the fashion for re-engineering is subsiding. That does not mean growth in consulting will do likewise. As Shaheen argues, when a corporation has finished overhauling its current organisation, it has to start working on its future – what he calls "enterprise transformation". And consultants, of course, will be needed to advise them.

Also, consultants are in many ways the advance guard of the globalising trend in world business. Andersen, for instance, has no world headquarters. Shaheen says he does not care where his staff live, so long as they are near an airport. With laptop and modem, they can tap into the company's database and advise clients from anywhere.

In that sense, consultants are the perfect type of what Robert Reich, the US labour secretary, used to call "symbolic analysts" – workers who make their living from manipulating abstract concepts. Being rootless and highly mobile, they can amass experience and information across continents and industries in ways that corporate executives find increasingly hard to duplicate.

It is here that doubts start to creep in. The skills of the experienced executive, after all, are hard to duplicate, too. While the more reputable class of consultant tends increasingly to get involved in putting recommendations into practice, they are not ultimately responsible for a project's success. Nor are they answerable to the company's shareholders.

For the average corporation, the trend known as outsourcing has much to recommend it. If outsiders can do a better job of feeding your workers, getting rid of your rubbish or even running your computers, good luck to them. But in the long run, can others do your thinking for you? The longer the abnormal growth in management consulting continues, the more it carries the worrying implication that corporations are being left behind by events.

صكنا من الاصل

ARTS

Plans drawn up for the Prado

Adam Hopkins on how rain in Spain has instigated a world-wide competition

A *competition announced* on Wednesday, to double the size of Madrid's' Prado museum, will send architects around the world straight to their drawing boards.

For the £100 million project will be an international spectacular, potentially ranking with I.M. Pei's National Gallery east wing in Washington or his celebrated Louvre pyramid. However, the difficulties and limitations of the site in an historic quarter of Madrid are also reminiscent of those that dogged the National Gallery extension in London

Two new buildings will be required in addition to the handsome late 18th century original, one probably freestanding, one framed in the ruins of a monastery cloister just behind the Prado. The winning design will also incorporate the two remaining fragments of the *17th* century royal palace which stood close to the vanished (royal) monastery and its surviving, many-pinnacled church.

The extent of the opportunity reflects the richness of the Prado's collection, pulsing with the drama and intensity of Spanish art, and also the art of Spain's one-time European possessions. El Greco, Velazquez, Zurbarán, Murillo, Goya, Titian, even Hieronymus Bosch are represented here in astonishing abundance.

The former palace buildings also offer striking opportunities. The principal room in one of them – the Sala de Reinos, now part of the Museum of the Army – was decorated by Velazquez, and included magnificent paintings by himself and Zurbarán. These are still held in the Prado and it is open to the contending architects to call for the restoration of this great room to its 17th century splendour.

But if the competition seems likely to prove thrilling, behind last week's announcement there lies a surprising and often – for Spaniards in particular – a disagreeable story.

It began on October 10 1993, when rain leaked through the roof of the Prado, dramatically revealing that all in the museum was not as it should have been. The flood descended into the semi-circular gallery at the back of the first floor. This held Velazquez's "Las Meninas" – described by the Italian artist Luca de Giordano as "the theology of painting" – and a good many more of Velazquez's works.

The director of the Prado resigned, and, by what may seem a fortunate coincidence, the chairmanship of the board of trustees simultaneously fell vacant. The government appointed post was given to José Antonio Fernandez Ordoñez, engineer and bridge-builder. "As Thomas Mann observes in the *The Magic Mountain*", Fernandez Ordoñez told me last week, "the first duty of an engineer is curiosity, so up I went to the roof to take a look".

What he saw shocked him so much that he immediately commissioned an independent survey from consultants Ove Arup. "And here", he says, "I can't be accused of partiality, or looking for the answer that I favoured. After all, Ove Arup had beaten me to the contract for the Malmo Copenhagen bridge in Scandinavia."

The report immediately proved another bombshell. Abandoning the customary courtesies, Ove Arup stated that the roof was in such bad condition that "radical measures should be taken immediately". It was an inadequate barrier against rain and a potential danger to anybody working on it. Partial repair would be "neither acceptable nor economically viable".

Fernandez Ordoñez set off in pursuit of a complete new roof, expected to cost around £6.5m. So persuasive has he proved that £2.2m has been set aside for the new roof in 1995, over and above the museum's regular budget, with the remainder promised for 1996. It has also been agreed that work on the roof would start at the end of July.

But the state of the roof, it transpired, was only one of the problems at the Prado. There was no suitable space for exhibitions and most of the office work went on in rented flats nearby. Access was confused, cloakrooms were inadequate to non-existent. The library was only a quarter of what was reckoned to be a suitable size. Moreover, the museum was obliged to hold in storage another 500 paintings claimed to be on a par with those already shown. Even more worrying, on the most flattering estimate the museum had only seven curators with full civil service qualifications.

A report drawn up by the Prado itself at the end of last summer punched home all these points. *Fernandez Ordoñez* presented the report to parliament, adding that the museum café was not only *claustrophobic but a potential* breeding ground for rats. The result was uproar among the government *and press.*

Prime minister Felipe Gonzalez made an official visit – the first in *Spanish history. Old plans for* enlarging the museum were dusted down and ambitiously extended. The Army Ministry was persuaded to site its museum elsewhere and the terms of the competition, drawn up by the UIA, the international union of architects, were duly announced this week. Available space in the Prado will be increased from 20,000 to 40,000 square metres.

Some 1,000 architects are expected to ask for the tightly-written, 22-page briefing paper and supporting technical documents. About 500 are expected to submit entries to the competition, which will be anonymous.

The 14 person jury is already a matter of open speculation. Under *the rules of the UIA it must contain* at least seven non-Spanish architects. The brilliant Portuguese architect Alvaro Siza has already indicated he will not take part in the competition and has been *approached as a possible jury member.* It is understood that contacts have been made with Hollein, Wilford, Macary, Isozaki and others.

Since the rain leaked through the Prado roof in autumn 1993, the *museum's future has been a matter* of intense political debate, with the opposition PP Partido Popular *angrily charging that* PSOE, Felipe Gonzalez's ruling Socialist party, has neglected this "national shrine".

Now, with the competition in the bag, the PP, current front-runners to win the next election, say it will back the Prado enlargement for at least two parliaments so that the project can go ahead safely.

Opera

Rossini and Gluck on tour

Three-and-a-half months on the road is a testing schedule for *an opera company,* as it struggles to drum up audiences along the way. English Touring Opera *is at least* setting out on its spring tour with reasonable optimism. A steady quota of laughs at Sadler's Wells Theatre in London will have given its new production of Rossini's *The Barber of Seville* a decent send-off, even if the company has had to stoop fairly low to put the comedy across.

In some of his previous operatic assignments the producer Martin Duncan has displayed a delightfully quirky sense of humour. Unfortunately, faced with Rossini's stock comic situations, *he seems to have found* little to rouse it. The opera is transferred to Spain in the Edwardian era, but any comic advantage from that period is promptly undermined by David Parry's coarse translation, which has the characters talking in 20th-century sitcom English. The singers know they have been given little to work with and try twice as hard to win the audience over.

Among the most successful is Debra Stuart's attractive Rosina, who is relentlessly bubbly, tripping up and down Rossini's scales with a smile that she hardly dares let slip for a minute. Adrian Clarke has been given an unusual Figaro to play, a fixer in a checked suit with his trilby *pulled* down over his eyes, but makes it work through determination and buoyant singing. *Neither would be likely to fool* Jonathan May's businesslike Doctor Bartolo, who sings the role as straight as he plays it. Andrew Burden slithers a little over the Count's semiquavers, but has a pleasing, light lyric tenor; Michael J. Pearson lacks the deep bass tone for his pale-as-death Don Basilio.

The rhythm of the comedy took a while to find a snappy enough pace on the first night. When the audience was on the edge of its seats, it was more likely waiting to see if the conductor Jonathan Darlington would manage to keep the singers and orchestra together (a few more performances are *needed to get* this show run in). Francis O'Connor has designed an inventive set, *crowned at the end by a giant* Spanish orange which rises over the final tableau, but this is ultimately not a production where the creative juices flowed.

The revival of Gluck's *Orpheus and Eurydice* from last autumn is much more inspiring. *Stephen Medcalf's* production takes this most timeless of all operatic stories and sets it in the present-day, making every emotion as fresh as if it was felt yesterday. This is a staging which has bags of style and knows it, putting *before us classicism* with a modern face (the vainglorious will be glad to know that heaven comes out as an empty room with a gigantic golden mirror).

Stephen Wallace sings Orpheus with naturally beautiful and unforced tone. Elizabeth Woollett is his desirable Eurydice and Anne O'Byrne a cheeky Amor; Martin André conducts in a rather regimented early-music style. For those who believe opera should be both intelligent and moving, it is the obvious production to choose of the two.

Richard Fairman

English Touring Opera is on tour until early June, *visiting* Poole, Coventry, Reading, Brighton and a dozen other *towns* in England.

Naturally beautiful tone: Stephen Wallace as Orpheus — Alastair Muir

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Theatre/**Alastair Macaulay**

'Vanya' with an Irish lilt

Stephen Rea has become so celebrated in the last two years as a film actor – above all, in *The Crying Game* – that his skills onstage have started to be forgotten. "Rea in Chekhov? Crazy" laughed a friend. But Rea has been acting Chekhov for years. He was Trofimov in Peter Gill's celebrated late-1970s *Cherry Orchard*, he directed Brian Friel's 1981 adaptation of *Three Sisters*, and he was a wonderful Platonov in Trevor Griffith's Chekhov-based *Piano* at the National Theatre in 1990.

For that matter, many of Rea's admirers *do not know that*, 15 years ago, he and Friel founded Field Day Theatre Company, which has staged many distinguished new Irish plays and adaptations by such as Friel, Tom Paulin, Thomas Kilroy, Terry Eagleton, and Seamus Heaney. Since the 1990 staging of Heaney's *The Cure at Troy*, however, Field Day has been less prominent; and since 1992 it has been in abeyance.

Now it has come back into action, touring a new adaptation of *Vanya* by Frank McGuinness. Rea plays the title role, and he is directed once more by Gill. The staging, which will tour Ireland north and south until April and will then come to London, is already good, and will surely improve. (There were no previews before the press night.) Designs – sets by Hayden Griffin, costumes by Pamela Howard – are *attractive but highly economical*, and seats are unusually cheap (£8 and £4, or £7 and £5, in most venues).

McGuinness does not move Chekhov's play to Ireland, but he gives it (as he did last year with *Peer Gynt*) an often Irish turn of phrase. "I'm not in the form," says Astrov during the first minute; the old nurse, Marina, talks of "Himself the professor".

I like Elena's phrase "I must lead you through a gentle inquisition" – but would Chekhov's Sonya speak that way? Michael Frayn has "I have to subject you to a little *cross-examination*": less obtrusive. I have no Russian, but, as I have understood Chekhov in translations from Constance Garnett on, he is among the most transparent of writers.

Gill's production makes clear that we are seeing 19th-century Russia through Irish eyes, and his cast respond finely to McGuinness's turns of phrase – though not fully yet to McGuinness's sense of Chekhov's rapid zigzagging between tragic and comic, or serious and absurd, moods. The production will work twice as well in more intimate spaces such as Dublin's Gate Theatre (next week). Everyone interacts very fluently, every slight reaction is very intelligently conceived, and yet we do not at present sense any performances, even Rea's, inspiring anyone else's.

Rea gives not only the fine company's finest performance here but also its most *daring*. This is a wholly forlorn Vanya, greying and dead-eyed, whose frustration and despair are combined to unusual effect – so that when he breaks out in rage in Act Three (a passage not yet entirely convincing), he is still stiff, bottled up, his energies so blocked, stunted, and Petrushka-like that they implode more than explode.

In Act Four, he is shattered, washed up. He shows, far more clearly than I have *ever seen before*, that the "mad" Vanya becomes like the intelligent and bitter "lunatic" Gromov in Chekhov's great story *Ward Number Six* – hopeless about life altogether, and increasingly indifferent to what happens.

He is supported by splendidly natural performances from Denys Hawthorne as selfish professor Serebryakov (a chillingly brief farewell kiss to his daughter Sonya), Enda Oates as mellifluous, virile, philosophical Astrov (with "whiskers like a cat"), and – most eloquent – Helena Carroll (unforgotten as one of the aunts in John Huston's classic film of Joyce's *The Dead*) as warm, compassionate, seasoned old Marina.

Zara Turner is a fresh, mild, touching Sonya, Kim Thomson a porcelain-doll Elena with a cultivated, cautious, hot-house-flower manner. The contrast between these two women is interesting in every way, but, like everything else in the production, it is an embryo of the more vital picture of Russian life that it should become.

On tour in Ireland until April 1, then at the Tricycle Theatre, London.

Saleroom/**Antony Thorncroft**

Hopes raised by Impressionists

After waiting almost five years for a really juicy property to fall into their clutches – either from death, divorce, or debt – Sotheby's and Christie's have this week suddenly been handed big potential cheques.

The death last year of Jean Stralem, an heiress of Lehman the bankers, has given Sotheby's a New York auction on May 8 which should raise well over \$40m; while Pamela Harriman, the US Ambassador to France, is selling three major paintings through Christie's in New York on May 11 for over \$20m. She needs the money to fight an expensive law suit brought by heirs to her late husband Averell Harriman's fortune.

Since the sudden collapse of the market in Impressionist and modern art in 1990, no owner of top quality works has willingly chosen to test demand. This is the opportunity for the salerooms to lure back buyers with highly desirable modern masterpieces and restore confidence in the market.

There are no doubts about the importance of the paintings on offer. Both sales are dominated by two very different Picassos. Sotheby's has "The Absinthe Drinker", an early Blue Period work, painted in Barcelona in 1903 and showing his friend Angel de Soto wreathed in tobacco smoke. It should make over \$12m.

Christie's is selling "Mère et enfant", painted in 1922, soon after the birth of Picasso's son and one of his finest mother and child images. It is consciously modelled on Leonardo's "Benois Madonna" in the Hermitage and should also clear \$10m.

Even so, if both paintings hit their conservative estimates they will still be around half the price the auction houses would have anticipated in the euphoric late 1980s, when voracious Japanese bidding pushed such art to a peak of \$82.5m, paid for a Van Gogh.

This season Christie's stands a good chance of overhauling Sotheby's in terms of turnover for the first time in more than 20 years. Much of this success is due to the company's risky policy of snatching valuable estates from the clutches of its rival by offering sellers a guaranteed sum in return for handling their art.

This happened in the case of the Harriman pictures which were bitterly fought over by Christie's and Sotheby's. Christie's has a habit of winning *these contests* (this week it secured the famous Colin collection, which includes a \$7m plus Modigliani by this route) and this is all very fine – unless there is an unsettling economic or political crisis just before sale day which scuttles the auctions and leaves the saleroom owning unwanted art.

Apart from the Picassos, the auctions contain other major paintings, a \$7m Renoir portrait and a \$3.5m late Matisse from Pamela Harriman, and two earlier, more desirable, paintings by Matisse from the Stralem collection. Jean Stralem and her husband Donald bought Impressionists for over 50 years and the 40 odd works up for auction include important paintings by Vuillard and Rouault, and works by Van Gogh, Degas, Bonnard, Gauguin, Manet and more.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS

Het Concertgebouw Tel: (020) 671 8345

● Royal Concertgebouw *Orchestra*: with soprano Sylvia McNair. André Previn conducts Debussy, Roussel and Ravel; 8.15pm; Feb 24

GALLERIES

Rijksmuseum Tel: (020) 673 21 21

● Art of Devotion 1300-1500: winter exhibition focusing on the spiritual *function of objects in the medieval* period; to Feb 26 (Not Sun)

BARCELONA

GALLERIES

Fundacio Joan Miro Tel: (93) 329 19 08

● Julian Schnabel: works by the American artist including 30 large format paintings and four monumental sculptures displayed outside the building; to May 14

BERLIN

OPERA/BALLET

Deutsche Oper Tel: (030) 341 9249

● *Die Meistersinger von Nürnberg*: by Wagner. Conducted by Rafael Frühbeck de Burgos, production by Götz Friedrich; *5pm; Feb 26*

● Ein Maskenball: by Verdi. Conducted by Rafael Frühbeck de *Burgos/Sebastian Lang-Lessing*, produced by Götz Friedrich; 7.30pm; Feb 25 (6pm)

● *Les Intermittences du Coeur*: ballet in two parts by Saint-Saëns. Choreographer, Roland Petit; *7.30pm; Mar 2*

Theater des Westens Tel: (030) 31 90 31 93

● *Street Scene*: by Kurt Weill. In English with soloists Janice Felty and Dean Anthony. Conducted by *James Holme; 7.30pm;*

LONDON

CONCERTS

Barbican Tel: (0171) 638 8891

● *Pierre Boulez 70th Birthday* Celebration: Boulez conducts the London Symphony Orchestra with *violinist Kyung-Wha-Chung to play* Ravel, Bartók and his own 'Figures, Doubles, Prismes'; 7.30pm; Mar 2

● Tippett: Visions of Paradise: *Sir* Colin Davis conducts the London Symphony Orchestra with mezzo-soprano Maria Popescu and tenor Laurence Dale to play Tippett's, "The Mask of Time"; 7.30pm; Feb 26

Festival Hall Tel: (0171) 928 8800

● *City of Birmingham Symphony* Orchestra: with pianist Paul Crossley and the ladies of the CBSO Chorus. *Sir Simon Rattle* conducts Stravinsky, Messiaen and Bartók; 7.30pm; Feb 25

● Philharmonia *Orchestra*: Christoph von Dohnányi conducts Brahms' symphony No. 3 and No. 1; *7.30pm; Feb 27*

● Pinchas Zukerman: Phillip Ledger conducts violinist, Zuckerman and *the English Chamber Orchestra* to play Bruch and Beethoven; 3.15pm; Feb 26

● *The London Philharmonic*: Zubin Metha conducts Wagner and Webern; 7.30pm; Feb 26

● The London Philharmonic: Franz *Welser-Möst conducts* Mozart, Bartók and Tchaikovsky; 7.30pm; *Mar 2*

GALLERIES

National Gallery Tel: (0171) 839 3321

● Spanish Still Life: from Velázquez to Goya. Exhibition of 16th-17th *century Spanish paintings* by artists such as Cotán and Zurbarán; to May 21

Roy Miles Gallery Tel: (0171) 495 4747

● Anderson and Low: platinum-*palladium prints of images* based on classical themes, ranging from sculpture and Renaissance tableaux *to geometrical studies; to Feb 28*

OPERA/BALLET

English National Opera Tel: (0171) 632 8300

● Madama Butterfly: Puccini's opera, originally directed by Graham Vick; 7.30pm; Feb 24, 28

● Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a Mafia boss; 7.30pm; Mar 1

● The Cunning Little Vixen: by Leoš Janáček. Original director, David Pountney; 7.30pm; Mar 2

Royal Opera House Tel: (0171) 340 4000

● Der Rosenkavalier: by Strauss. Conducted by Andrew Davis, directed by John Schlesinger. Soloists include Felicity Lott/Anna *Tomowa-Sintow as Prinzess von* Werdenberg; 6.30pm; Feb 24; Mar 1

● Giselle: music by Adolphe Adam. *A Royal Ballet production* choreographed by Marius Petipa after Jean Coralli and Jules Perrot *and produced by Peter Wright*; 7.30pm; Feb 25 (1pm)

● La Bohème: by Puccini. Conducted by Simone Young/Paul Wynne Griffiths, directed by John Copley. Soloists include Angela Gheorghiu/Amanda Thane as Mimi and Maria McLaughlin/Judith Howarth as Musetta; 7.30pm; Feb 28; Mar 2

THEATRE

Gielgud Tel: (0171) 494 5065

● Design for Living: by Noel Coward and directed by Sean Mathias; 8pm; (Not Sun)

Greenwich Tel: (0181) 858 7755

● The Duchess of Malfi: by John Webster, directed by Phillip Franks. With Juliet Stevenson and Simon Russell Beale; 7.45pm; (Not Sun)

National, Lyttelton Tel: (0171) 928 2252

● What the Butler Saw: by Joe Orton. Directed by Phyllida Lloyd, *with John Alderton as Dr Prentice*, and Richard Wilson as Dr Rance; 7.30pm; Mar 2 (7pm)

National, Olivier Tel: (0171) 928 2252

● The Merry Wives of Windsor: by Shakespeare. Terry Hands directs his first production at the National. With Denis Quilley as Falstaff, Brenda Bruce as Mistress Quickly and Geraldine Fitzgerald as Mistress Ford; 7.15pm; Feb 28; Mar 1, 2 (2pm)

Shaftesbury Theatre Tel: (0171) 379 5399

● The Three Lives of Lucie Cabrol: adapted from John Berger by Mark Wheatley and Simon McBurney, *who* also directs. The Theatre de Complicite presents this violent love story; *7.30pm*; to Feb 25 (Not Sun)

MADRID

GALLERIES

Mercado Puerta de Toledo Tel: (91) 366 7200

● The Golden Age of Dolls: exhibition marking the "Golden Age" of toy *making* (1840-1940), and its social impact. Over 800 exhibits; to Feb 24

MUNICH

GALLERIES

Kunsthalle der Hypo-Kulturstiftung

● Paris-Belle Epoque: An evocation of the *period from* 1880 to 1910, with paintings, drawings, posters, photographs, glass and furniture; to Feb 26

NEW YORK

GALLERIES

Metropolitan

● *Early Renaissance* Florence: 100 panel paintings and manuscript illuminations by masters of the Gothic style; to Feb 26 (Not Mon)

● Thomas Eakins: exhibition honouring the 150th anniversary of the birth of the artist; to Feb 26

OPERA/BALLET

Metropolitan Tel: (212) 362 6000

● Der Rosenkavalier: by Strauss. Produced by Nathaniel Merrill, conducted by James Levine; 7.30pm; Feb 24; Mar 1

● La Traviata: by Verdi. Produced by *Franco Zeffirelli*, conducted by John Fiore; 8pm; Feb 25 (1.30pm) ; Mar 2

● Simon Boccanegra: by Verdi. A new production directed by Giancarlo del Monaco.; 8pm; Feb 25, 28

● Turandot: by Puccini. Produced by Franco Zeffirelli, conducted by Nello Santi; 8pm; Feb 27

PARIS

CONCERTS

Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24

● National Orchestra of France: with soprano Yvonne Kenny, tenor Anthony Rolfe-Johnson and baritone Gerald Finley. Arnold Oestman conducts Haydn's 'La Création'; 8pm; Mar 2

● Orchestre du Centre National des Arts du Canada: Trevor Pinnock conducts Schubert, Haydn, Bouchard and Mendelssohn; 8.30pm; Feb 27

OPERA/BALLET

Opéra National de Paris, Bastille Tel: (1) 47 42 57 50

● La Damnation de Faust: by Berlioz. Conducted by Myung-Whun Chung and produced by Luca *Ronconi. Soloists include Béatrice* Uria-Monzon as Marguerite, and Thomas Moser/Gary Lakes as Faust; 7.30pm; Feb 25, 28; Mar 2

WASHINGTON

CONCERTS

Kennedy Center Tel:(202) 467 4600

● James Galway: flutist with harpsichordist Phillip Moll plays Bach and Handel; 5pm; Feb 25

OPERA/BALLET

Kennedy Center Tel:(202) 467 4600

● Manon: by Massenet/MacMillan. An American Ballet Theatre production; 8pm; Feb 28; Mar 1, 2

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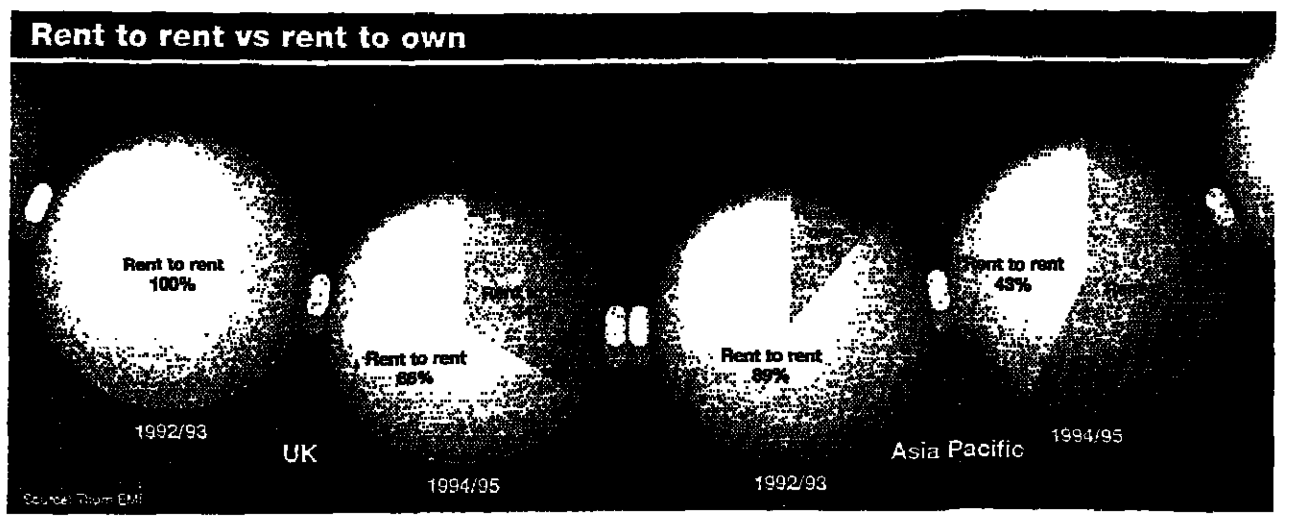

Try it before you buy it

Thorn's concept is catching on in Europe, says **Neil Buckley**

The problem is familiar: £1,500 seems a lot to pay for a PC when you cannot be sure you will like it, or that a better product will not be launched in a few months' time. On the other hand, you may fall in love with your new machine and want to keep it.

The solution may be rent-to-own – a \$2.8bn-a-year (£1.8bn) business in the US that is now spreading to many other countries. Also known as rental purchase, the concept is simple: as in conventional hire purchase or credit sales a customer rents a PC (or hi-fi, washing machine, or even a string of pearls) and after paying a certain number of instalments, becomes the owner. Unlike hire purchase, however, there is no down payment, the customer can cancel the agreement or swap the product for a different one at any time without penalty, and enjoys free repair services for the duration of the contract.

More important, rent-to-own is being made available to lower income groups not normally able to obtain credit. In the words of Sir Colin Southgate, chairman of UK-based Thorn EMI, the biggest rent-to-own operator, the concept "provides easy access to consumer goods for people who cannot afford or choose not to buy outright".

But while weekly or monthly payments are low, effective interest rates can be high. In the US the industry has been accused of taking advantage of financially unsophisticated customers to charge two or three times the usual retail price. Legislation has been threatened to curb interest rates.

The rent-to-own industry defends its pricing structure by saying it is taking credit risks that others eschew, and must cover the cost of maintenance services and relatively high staff levels. Thorn EMI says US research found 95 per cent of its customers understood that ordinary retail stores sold products for a lower total price.

"We sit down with people and go over their disposable income and what they can afford. It is often the first time anyone has done that for them," says Sharon Christians, Thorn EMI's corporate affairs director.

Between 25 and 30 per cent of US customers now take their contracts to term and become owners. Many of the rest rent products such as camcorders on a short-term basis.

Thorn has 34 per cent of the US market, through the Rent-A-Center chain which it acquired for \$594m in 1987 and has expanded to almost 1,300 stores – bigger than its four biggest rivals combined – and a more upmarket chain called Remco. The US operations made operating profits of £69m on £500.2m turnover last year.

Rent-to-own's success in the US convinced Thorn that the concept was ripe for export and could be used to revitalise its traditional rent-to-rent businesses elsewhere, which were in decline due to falling prices and improved reliability of consumer goods.

"Consumers today like at least the opportunity to take ownership," says Mike Metcalfe, chief executive of Thorn EMI's rental arm, Thorn Group. "The bulk of our installations worldwide will be on a rent-to-own basis."

Thorn offers rent-to-own in 20 countries, and believes the scope for growth is considerable. By targeting lower-income groups, it believes the potential rent-to-own market generally includes between 25 and 30 per cent of all households which require consumer goods. Extending it to high-technology products such as multimedia PCs would appeal to a more upmarket audience as well.

In the UK, for example, Thorn introduced Option-2-Own in its Radio Rentals chain in October 1993. The chain's product range was expanded to include computers, audio, refrigerators and mobile telephones, available on rent-to-own contracts typically lasting 36 months. The annual interest rate is 24.9 per cent.

Doug Anderson, chief executive of Thorn UK, says the result was a 2 per cent increase year on year in the chain's rental revenues in the final quarter of 1994, after five years of decline. Last year, Thorn built five stores called Crazy George's in the West Midlands, a wholly rent-to-own operation offering a wider range of products, including bedroom furniture, to a more down-market audience.

Results exceeded expectations, and Thorn plans 20 more Crazy George's stores this year. From a 100 per cent rent-to-rent business in 1992-93, Anderson expects the UK business to be 34 per cent rent-to-own this year.

In Thorn's Asia-Pacific region, thanks largely to the introduction of a Rent-Try-Buy option in its Australian chain, rent-to-own has grown from 11 per cent of rental business in 1992-93, to a forecast 57 per cent this year.

There are clouds on the horizon, however.

Rent-to-own's image in the US is still controversial. In 1993, the Wall Street Journal accused Rent-A-Center of using high-pressure sales techniques and strong-arm debt-collection methods. Thorn responded by appointing Senator Warren Rudman, a Republican from New Hampshire who cross-examined Colonel Oliver North during the Irangate hearings, to investigate the claims.

Rudman largely cleared Rent-A-Center of improper practices. He admitted some of the allegations were true – including the use on one occasion of a Hell's Angels gang to collect a customer's debts – but said they were "unrepresentative".

Another threat – of legislation to curb interest rates in the US – receded after the Democratic defeat in the mid-term elections led to the replacement of Congressman Henry Gonzalez as chairman of the House Banking Committee.

While the prospect of legislation has not entirely vanished, Thorn is pressing on with expansion. Analysts predict others may be attracted to the concept but, as one observes: "Thorn has a huge head-start."

Philip Stephens

Hints of unionist realism

To understand Ulster's unionists, you have first to see them through the eyes of the English. Most of us, the English that is, find it hard to be honest about our attitude towards Northern Ireland.

We uphold its right to remain part of the United Kingdom. We are certain it should not be wrenched by violence and intimidation from the rest of the British polity. If the present ceasefire were to break down, we would agree without hesitation that troops should return to the streets to protect the province from the cruel murder of the IRA. An instinct for democracy a great deal stronger than we sometimes admit tells us that terrorism must never triumph.

And yet there is something about Northern Ireland that most times makes us feel uncomfortable, sometimes repels us. Seen from this side of the Irish Sea, it is a dour, unforgiving place. Serried rows of terraced houses conjure up the bleak greyness of an early episode of Coronation Street. Television images depict a suspicious, tight-voiced land where pessimism long ago smothered hope. Even the names – the Shankill, Creggan, Ardoyne, Crossmaglen – have a disconcerting harshness about them.

It is as if 25 years of sectarian violence has stranded Ulster in a dismal past. The embroidered banners of the Orange lodges could be the standards once carried aloft by militant London dockers. The bowler hats worn by the middle-aged on the marches of the Apprentice Boys symbolise a hopeless attachment to an England that no longer exists. The province's economy, dominated by high unemployment, low incomes and high public spending, was left unscathed by the Thatcher revolution. The Right to Buy never caught on in the Falls Road.

Religion widens the chasm. The Old Testament fundamentalism preached from the pulpits of Northern Ireland jars with the liberal secularism of the home counties.

Don't misunderstand. This is not presented as a fair portrait of Northern Ireland. Those who have travelled in the province understand well that the rugged beauty of its landscape is matched by a warm hospitality that bridges the sectarian divide. There is nothing to celebrate in England's loss of such community. But most never visit the province. So it is the perception that counts. Unionists, and particularly their representatives at Westminster, understand well that the English support Ulster's place in the Union through a sense of duty rather than of affection.

This understanding conditions in turn the insecurity of the protestant majority. Their politics are predicated on the supposition that the sole ambition of the English political classes is to be rid of them.

And it was from this well of suspicion that unionist MPs drew their reaction to the proposals for a political settlement published this week by John Major and John Bruton. The Framework for Agreement was seen as just the latest in the long line of attempted sell-outs stretching from the 1973 Sunningdale accord to the Anglo-Irish agreement in 1985.

Northern Ireland's unionists misread Mr Major. He has not given Mr Gerry Adams any pledges. Rather, he has refused them

No matter that the document offers a triple lock of consent; that nothing can change unless and until it is endorsed by the province's political parties, by its people and by the Westminster parliament. For a unionist fearful of English treachery, the North-South institution proposed by London and Dublin is the Trojan Horse for Irish unity. Mr Major's admission that the six counties could not be coerced into remaining within the United Kingdom if its people were ever to prefer Irish unity reinforces the conviction.

We should not dismiss such fears. The sectarian rancour of Ulster's Ian Paisleys must not be allowed to devalue the real concerns of the decent majority. Sinn Féin makes no secret of its ambition. Listen to Gerry Adams, the silver-tongued spokesman for the IRA, as he welcomed the "all-Ireland ethos" of the framework document: "The governance of this state (Ulster) is not the problem. The existence of this state is the problem." No doubt there.

So what? Sure, part of Mr Major's strategy is to ensure that the IRA paramilitaries whom Mr Adams pretends not to represent have no excuse to break the ceasefire announced last September. The longer the ceasefire holds, the more chance it will be permanent. Catholics as well as the Protestants of the Shankill are becoming accustomed to the normality of peace. The green rhetoric in the document – the talk of "the people of Ireland, North and South", the repeated references to the "island of Ireland" – is directed to entrenching the ceasefire. But language is just that, language. No sell-out here.

The unionists misread Mr Major. He has not given Mr Adams any pledges. He has refused them. In the secret negotiations that preceded the IRA ceasefire, Mr Adams insisted on an indication of Britain's willingness eventually to withdraw as the precondition for an end to Republican terrorism. The Sinn Féin president at one point suggested he would accept a commitment to depart 50 years hence. He was refused.

Nor are there political points for the prime minister in this. Permanent peace in Enniskillen will not repair the government's reputation with the voters of Southampton or Milton Keynes. Mr Major doesn't share the prejudices of most Englishmen about Ulster. He likes it. He wants it to remain part of the UK. No, he is driven by the just conviction that the establishment of peace is the first duty of political leaders.

It is a brave course, pursued with a rare passion by a prime minister more used to denunciation as a faint-hearted pragmatist. Failure might well mark the end of his premiership. His enemies on the Tory backbenches would pour from the crevices of Westminster to denounce him. How much easier it would be for Mr Major to tread the path fashionable among sacked cabinet ministers. Give Mr Paisley what he demands: an unequivocal commitment that, whatever the views of its people, Ulster will never be part of a united Ireland.

That brings us to the fundamental flaw in unionist thinking. Such a pledge would ensure another 25 years of violence; and it would be worthless. It would not make Ulster secure in the UK. Quite probably, the reverse. The English would become more disillusioned, the province more detached. The Union of Britain and Northern Ireland will be safe only when the majority in the province are ready to render it palatable, even attractive, to the nationalist minority. Words from this prime minister or from any other will count for nothing if in 10, 15 or 20 years time the minority still considers itself oppressed.

Mr Major and Sir Patrick Mayhew, and to their great credit also Albert Reynolds and Dick Spring, recognised three years ago that a political settlement built on consent offers the only real security for unionists and nationalists alike. The principle runs through every page of this week's document, underpins every proposal. And look at how much it has already changed things. When Margaret Thatcher signed the Anglo-Irish agreement only two groups – the unionists and the Conservative government – accepted that any change in Ulster's status must be with the consent of the majority. Now Dublin is willing to enshrine it in a constitution written by Ireland's foremost nationalist nearly 50 years ago.

The safest prediction for a cynical Englishman this week is that the latest proposals will fail; that Ulster will once again say no. But there are signs, just a few, that the unionist community is grasping a truth that so far has eluded their political leaders. Nothing will strengthen the union so much as peace.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

WTO leader: too big a job for one person

From Sir Roy Denman.

Sir, Your editorial, "Choosing a head for WTO" (February 22), rightly stressed the early need to break the deadlock between the US and Europe on the appointment of a successor to Peter Sutherland as director general of the World Trade Organisation.

But there are three other points you did not mention. The first is that there are now effectively two jobs to fill. Since 1947 both the membership of what was the General Agreement on Tariffs and Trade and its subject matter have vastly expanded. More than 100 countries now negotiate over a vast and increasing range of topics. So there are now two job descriptions, much like the distinction between chairman and chief executive officer.

One is for a charismatic figure, a politician acceptable to other politicians as one of the club, who would deal directly with them across the world, address their concerns and speak to them with a directness and authority which an ex-bureaucrat could not.

The second is for a super bureaucrat who would remain in Geneva, master the formidable intricacies and persuade and cajole the various committees into action and sense. A formidable Dane, Finn Gundelach, fulfilled this role in the 1960s. Someone of his calibre is needed.

The second point is that the first job needs to be filled by someone from a developing country. These now account for more than two-thirds of the WTO membership. The first four directors general came from Europe. To continue this Eurocentric tradition, if a good candidate can be found from the ranks of the developing countries, would alienate most of the membership of the WTO.

The third point is that Europe's candidate, Renato Ruggiero, is, at 65, too old. No one would dispute his considerable abilities. But for a new WTO some continuity is needed. The two key figures to be appointed to very demanding jobs need 10 years ahead of them. So someone younger, preferably not more than the early fifties, is needed.

Roy Denman,
26 St Luke's Street,
London SW3 3RP, UK

From Professor Sir Hans Singer.

Sir, In your leader, "Choosing a head for WTO", you tell the countries of Africa and Latin America that they cannot expect to have any say in this important matter. You say that "the 50 African countries export substantially less than Belgium". True, but sub-Saharan Africa alone has a population of 500m human beings whose welfare would be deeply affected by the WTO, whereas Belgium has about 10m people. Similarly, you say that "the 31 countries of Latin America and the Caribbean export substantially less than Italy". True, but Latin America and the Caribbean have a population of well in excess of 400m people, whereas Italy has a population of 57m people.

Does this count for nothing? Do you really maintain that "these small powers" shall not influence the choice?

Hans Singer,
Institute of Development Studies,
University of Sussex,
Brighton BN1 9RE, UK

New funding system vital to quality in education

From Sir Richard Luce.

Sir, John Authers's article on higher education ("A degree of quality assurance", February 20) contains much with which I agree. He is absolutely right to focus attention on quality now that we have reached the age of mass access to universities.

One litmus test of quality is the level of personal contact between lecture staff and students, for which there can be no substitute.

Small tutorials are vital to spark students to learn how to acquire knowledge, to stimulate the intellect and to seek the truth.

There is no doubt that personal contact is declining seriously in many institutions, with oversized lectures and seminars and sometimes no tutorials at all. This means that there is a decline in the quality of some institutions and that some graduates are not meeting the needs of employers.

It is in the hands of the government and universities to do something urgently to reverse this trend, which is undermining the reputation for quality of British universities.

John Authers rightly says that many universities are looking at a range of new ways to meet the challenge, but in his last paragraph he mentions that "finance for future expansion has been temporarily curbed". We must all be in no doubt that, without a substantial injection of extra resources per student, increased access will lead to a further decline in quality.

It would be totally wrong to allow further expansion of student numbers until two things have happened.

First, we want to be able to guarantee adequate threshold standards in quality for any institution claiming to be a university.

Second, we must make a significant change to the funding system to facilitate adequate resources to maintain quality. This means acceptance of the principle that students with the means must pay a share of tuition as well as maintenance costs, and that those unable to pay this way must be fully supported by the taxpayer or through a proper loan system.

We must now face up to the need for a new funding system.

Richard Luce,
vice-chancellor,
University of Buckingham,
Buckingham MK18 1EG, UK

Mexico has fallen victim to 'war of the markets'

From Ambassador Luis Eugenio Todd.

Sir, May I comment with regard to the numerous articles you have recently published on Mexico, a great country with an enormous cultural wealth whose social problems have been a permanent preoccupation for all of its government administrations.

The peasant uprising in the southern state of Chiapas is an example of a problem of social origin which has now been reduced to a war of letters in newspapers. In the past 400 days only two people have been killed, an army colonel and a soldier of indigenous origin. There are also indigenous people in the army. Today's government is exercising the democratic process, and the recent election win by the opposition in the state of Jalisco is the best example.

Critics of Mexico's attitude to finance forget that the cause of this problem is not the Mexican people, who are paying the social cost, but the international financial centres, which are creating a currency crisis by withdrawing resources and which want to profit greatly but not take risks at strategic times. This is speculation and cannot be morally supported.

The loans that Mexico has asked for are not to pay for its social problems but go to meet large interest payments or pay rich investors who are out to make fast, easy money. In other words, we are witnessing the war of the markets and no country is immune to that. The cost of this war will be paid by the people of the developing world if this does not change.

The true issue of Mexico's crisis must be analysed by you more profoundly. The issue is a world based on the markets, on speculation and on egocentrism which has brought down international aid to its lowest level, thus forgetting human development.

We need more Unescos and fewer financial institutions; that is, more rights to development based on human capital and less on financial speculation. This is the great dilemma of, on the one hand, the media society which sometimes overruns the advantages of democracy and, on the other, of Phoenician free enterprise commerce which overruns Hellenic humanism.

Luis Eugenio Todd,
permanent delegate of Mexico to Unesco,
5 rue Jean Carriès,
75007, Paris, France

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FINANCIAL TIMES
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Friday February 24 1995

Balladur at bay

If the French foreign minister is *"scandalised" by the leaking to Le* Monde of the row over alleged US espionage in France, that may be only partly because of the damage done to Franco-American relations. As a supporter of Jacques Chirac's presidential candidature, Alain Juppé may share the suspicion that the leak was intended to distract attention from the telephone tapping scandal which has become a serious embarrassment to the rival campaign of prime minister Edouard Balladur.

What is certain is that Mr Balladur is suddenly looking beatable, and shows signs of losing his legendary *sangfroid*. One opinion poll carried out last weekend showed him neck and neck with Mr Chirac at 21 per cent, just behind the Socialist candidate, Lionel Jospin. Moreover, the same poll showed Mr Chirac a more comfortable winner than Mr Balladur against Mr Jospin in the run-off (in which only those who come first and second in the first ballot are allowed to compete). This could be crucial, since the original groundswell of support for Mr Balladur's candidature within the governing majority derived in large part from opinion poll evidence suggesting he was better placed than Mr Chirac to defeat the left.

In short, the outcome of the election, which is still two months away, now looks far less of a foregone conclusion than it did when Mr Balladur declared his candidature a month ago. That has been reflected in the markets, where the franc came under heavy downward pressure this week.

Clear profile

In so far as this was a knee-jerk reaction to the Socialist candidate's improved showing, it was probably not justified. It is natural that leftwing voters should rally behind the Socialist candidate now that there is one with a reasonably clear profile, if only to ensure that there is a leftwing candidate to vote for in the second ballot. Mr Jospin can reasonably expect to fulfil that ambition, though yesterday's decision by the Radical party to field its own candidate will make it that much more difficult for him. What he cannot seriously expect is to win. All the polls confirm that there is not a leftwing majority in France, as Jacques Delors – ironically the one Socialist candidate who might have attracted enough centre voters to overcome that difficulty – pointed out when he announced his decision not to run.

It can be argued, however, that the significant cleavage in France is no longer between left and right but between haves and have-nots. To be precise, it is between those who feel confident of benefiting from economic recovery, and from closer European integration, and those who fear that market forces are going to exclude them permanently from the work force, or oblige them to work for subsistence wages with little prospect of improvement for themselves or even their children. This cleavage was already apparent during the Maastricht referendum, when it was essentially the hopeful France that voted Yes, and the anxious, disgruntled France that voted No.

Reluctant supporter

Mr Balladur was only a reluctant supporter of Maastricht, but as incumbent prime minister for the last two years he has come to be identified with the general direction in which France and Europe are moving. Mr Chirac, having to run against him, has inevitably appeared more of an opposition candidate, competing with more radical rightwing candidates, but also implicitly with the left, for the votes of all those who feel that change is leaving them behind, if not trampling them under foot. Whether he would in fact pursue very different policies from Mr Balladur once in office is doubtful. But it is natural for the markets to worry when he criticises the government for paying too much attention to them, and not enough to the battle against unemployment.

Unemployment is indeed the root of many of France's troubles. The only credible remedy for it is to reduce the cost of labour by lightening the burden of tax and social security payments on employers. But that in turn would aggravate the budget deficit and put new strain on the link between the franc and the D-Mark – unless combined with other forms of taxation and/or cuts in social security entitlements. Neither of these is exactly a tempting programme for a candidate who hopes to be elected.

Reinforcing Indian reform

The administration of India's prime minister, Mr P.V. Narashima Rao, is in a sorry state. Having been trounced in three state elections last December, his Congress (I) party faces trouble in six more this month and next. Neither the expulsion from the party of his rival, Mr Arjun Singh, nor an extensive cabinet reshuffle look sufficient to dispel the malaise. Unsurprisingly, investors are voicing doubts about the durability of economic reform. If India is to prove such doubts are misplaced, next month's budget must signal clearly that reform is on track.

Economic liberalisation is hard to pursue in a democracy when its benefits are slow to trickle down. The bulk of India's poor urban voters, and many of its rural ones, have noticed only the rise in fuel and food prices as subsidies have been cut. Significantly, victory accrued in December's Andhra Pradesh election to a former film star who promised to slash the price of rice. But there is broad consensus in India's main political parties that reform should continue. The question is more one of pace and degree.

Part of Mr Rao's trouble is that his faith in reform has always appeared eminently shakeable. That has given his government an air of indecisiveness which may be more to blame for his unpopularity than the reforms themselves. He might do himself and India a great service by working harder to convince voters that future prosperity depends on reform continuing now. Without further deregulation, India can never expect to sustain the kind of growth rates which east Asia enjoys. Moreover, deregulation reduces the possibility of corruption about which so many Indians complain.

Hung parliament

Congress will only be the obvious loser in next year's general election if there is an obvious winner. The bigger risk is of a hung parliament. It must be tempting to forestall that by sweetening next month's budget with subsidies, but that would be dangerous. *Though voters in Andhra Pradesh* clearly liked the prospect of cheap rice, the new government there faces the unappetising task of meeting the cost. Central government would be faced with similar difficulties if it tried to buy votes. The budget deficit is already 6 per cent of GDP and inflation is well back in double digits.

Perhaps it would be easier to maintain the momentum of reform if India's reserve position were less comfortable. But with reserves covering 10 months of imports the urgency is no longer there. *Mr Rao himself has promised* categorically that reforms will continue and at least his new commerce minister, Mr P. Chidambaram, is firmly committed to them, but actions as well as words are needed. That is why the budget has assumed such importance.

Highly desireable

It would be unreasonable now to expect Mr Rao to proceed quickly with labour market reform, necessary though that will become in due course. His government is certainly too weak to make it easier to lay off workers and encourage companies to restructure. Likewise, the full opening of India's markets to imported consumer goods would be highly desirable, but such controversial moves are much easier just after a general election than before. What Mr Rao and Mr Manmohan Singh, his finance minister, need to do is to concentrate in the short run on reforms which can command broader support.

Fortunately, a number of possible measures fall into this category. The government could proceed with divestments of stakes in industry – setting a new timetable for the sale of VSNL, the state overseas telecommunications agency, and Industrial Development Bank of India, both of which have been postponed. Mr Rao could liberalise the insurance market, a move promised in last year's budget. There is also scope for further deregulation of interest rates.

Investor anxiety would certainly be stilled if next month's budget included measures such as these while also keeping the deficit under control. Mr Rao might then appear as a determined leader just at the time when the more extravagant promises made by opposition parties in the state elections were seen to be impossible to deliver.

Julian Ozanne on how innovation in electronics is changing the pattern of Israel's exports

High-tech horizons

In science parks and industrial zones across Israel, dozens of dynamic new companies are driving the Jewish state towards an era of high-technology exports.

Israeli companies such as Scitex, Indigo, Lannet, ECI Telecomm and Elscint are at the cutting edge of research and development and are world leaders in their fields. New products in electronic printing, medical equipment, telecommunications, electronics, software and data communications are unveiled almost daily. A wave of technology-based company start-ups is sweeping the country.

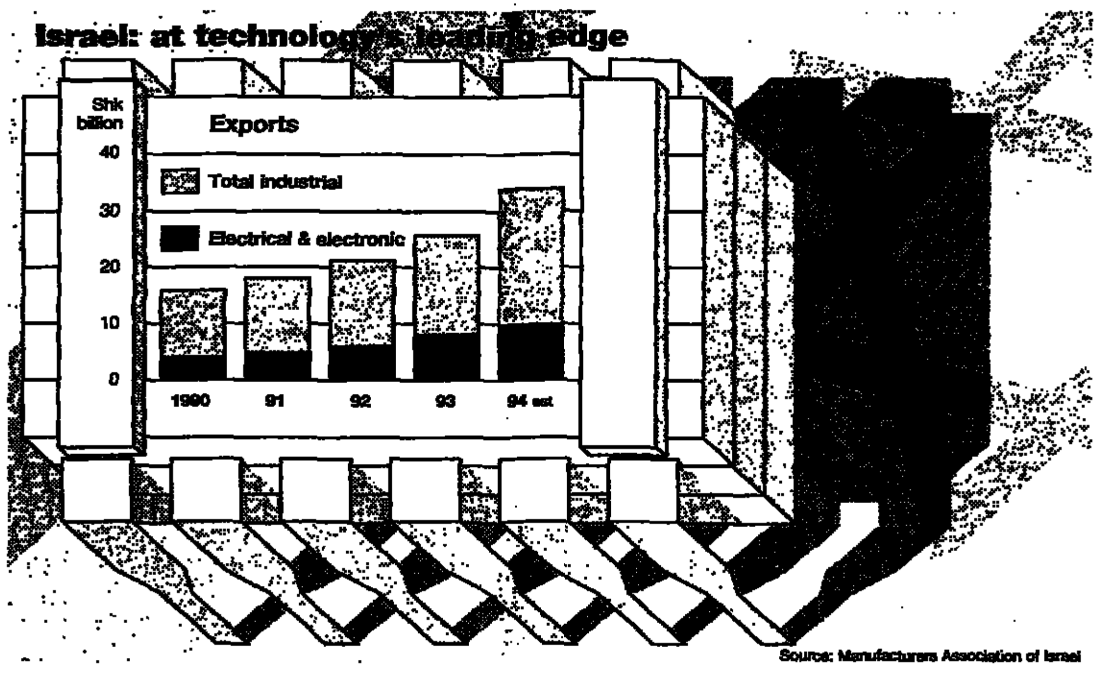
"Israel is the most competitive country in the world in developing tomorrow's leading-edge technology," says Mr Benny Landa, founder and chief executive of Indigo, which has developed a revolutionary electronic digital offset press for colour printing.

The success of Israeli high technology products is gradually transforming the pattern of the country's exports and is likely to be an an important factor in future economic growth. High-tech manufacturing now accounts for half of gross industrial product, against 15 per cent in 1990. Sixty per cent of Israel's industrial exports are high-tech, and last year high-tech exports grew by 14 per cent.

Foreign investors have flocked to the Israeli high-tech sector, although some have suffered in the past from the notorious volatility of share prices in the sector. Fifty Israeli high-tech companies are currently traded on Nasdaq, the US stock market focused on fast-growing companies, with a combined market capitalisation of $7.2bn. Another 55 are valued at almost $3bn on the Tel Aviv stock exchange. Investor interest has been marked by a strong flow of venture capital funds looking for ventures to finance, while many US multinationals – including Intel, Microsoft, IBM, Motorola and Digital – have opened factories or research centres.

Several factors have fostered the Israeli high-tech revolution: sophisticated scientific research by the armed forces; an excellent education system; the influx of thousands of highly educated Russian engineers and scientists; relatively low costs of production; an entrepreneurial culture; and one of the world's most extensive programmes of government support for R&D.

Israeli military research has perhaps been the greatest single driving force for high-tech investment. The siege mentality from decades of *Arab-Israeli conflict produced high* quality military products, particularly in telecommunications, and a generation of engineers and innovators. Companies such as Rad Communications, Gilat Satellite, Lannet and 4th Dimension were set up by people who left the armed forces after years in R&D and converted military technology to civilian use. The collapse of demand for military products also forced companies such as Tadiran, an electronics maker, to shift to civilian markets.



Source: Manufacturers Association of Israel

The wave of Jewish immigrants from the former Soviet Union between 1989 and 1992 provided a new supply of scientists just as the high-tech sector was expanding. Almost a third of Israel's workforce are engineers, the highest proportion in the world. Israel employs more than 140 scientists and engineers in R&D for every 10,000 people in work, well ahead of the US and Japan, its nearest rivals.

The government, meanwhile, has made the development of industrial technology a priority. It spends almost 3 per cent of gross domestic product on civilian research and development, a rate surpassed only by Switzerland. The state funds *about one third of total investment* in commercial industrial research and development directly, spending $317m in 1994.

"Investment in high-tech exports per square metre is one hundred times more profitable than investment in subsidising agriculture," said Mr Shuki Gleitman, chief scientist for the Israeli government. Last year he made grants for up to 35 per cent of total investment costs to 15,000 projects involving 800 companies. Companies only repay the money if the project is successful.

Another government incentive is assistance for 28 technological "incubators", advice and assistance centres which between them have overseen 250 R&D projects. The programme was set up to help Russian immigrants hone their business and management skills. Mr Ed Mlavsky, president of the $27m Gemini Capital Fund which invests in Israeli high-tech companies, has made three of his 10 investments in projects coming out of incubators.

A third programme fostering high-tech commerce has been the US-Israel Binational Research and Development Foundation, with a capital base of $110m contributed by *the Israeli and US governments*. It makes grants of up to 50 per cent of R&D expenses to joint technological projects between Israeli and US companies. Recent projects include a joint venture between GTE Spacenet of the US and Gilat Satellite to develop a new, economical system for satellite data transmission called Skystar Advantage.

Indigo first announced its revolutionary E-Print product – which makes short-run colour printing faster and more economical than conventional offset – in 1993. It went public in New York last May, and although it has yet to make a profit the company currently has a market capitalisation of $1.35bn. Mr Landa says that with Indigo and Scitex, which sells machines to prepare material electronically for printing, Israel has a chance of dominating the high-tech end of the global printing industry.

"Our success is the result of long and deep investment in technological knowhow nobody can touch," he says. "We don't see a viable competitor on the horizon."

In medical technology, Elscint, also traded in New York, is a leader in medical diagnostic imaging systems such as ultrasound. In data communications, Lannet, also traded on Nasdaq with a market capitalisation of $240m, has developed a local area network switch and had sales of $70m last year, mostly in Europe and the US.

Mr Zohar Zisapel, chief executive of Rad Communications, the parent *company of Lannet, says Israel has* the opportunity to become a market leader in data communications because the technology changes fast and is not dominated by giant companies. "The biggest companies are worth about $1bn and Israel can produce companies that size," he says. There has been an explosion of new enterprises all seeking to copy companies like Lannet. Up to *400 start-ups, making heavy use of* subsidised capital, are developing products for the telecommunications, computer-to-computer networking and data communications markets. "We are seeing the spirit of Silicon Valley 15 years ago," says Mr Zisapel.

Many of these new companies with market-ready products will be assisted by the rapid growth of Israeli venture capital funds, which have raised $600m from investors in the past three years. US investors such as Advent, the big venture capital fund, and Fairchild Corp, the high-tech company, have taken stakes in new funds like Gemini and Teuza. "Israel has the highest concentration of technological innovation, entrepreneurship and the potential for new start-ups of any country in the world," says Mr *Mlavsky of Gemini*.

The greatest limitation is that many of the companies are still exploiting the technological research base developed in the military in the 1980s, and may have difficulties with the next generation of high-tech products.

To overcome this, Israeli is trying to encourage new research in promising areas of technology through a programme called Magnet. It encourages the formation of consortia of several companies and at least one research institute or university. But the unwillingness of competing Israeli companies to share information and co-operate, and the lack of good links between universities and industry, remain a formidable obstacle. Another problem could be a shortage of high-tech professionals. Already there is evidence of rising wages which may erode Israel's competitive edge.

There is, however, a consensus among businessmen and investors in the sector that these problems will be overcome and the technological base will continue to develop. "There is a process of regeneration going on continually," said Mr Dov Tadmor, managing director of Discount Investment Corporation, an Israeli holding company which has invested heavily in the high-tech companies. Even if products themselves have a short life-cycle, he says, the technical skills involved in research and development will fuel further advances. "It's self-perpetuating," he says.

Need for unitary competition authority

PERSONAL VIEW

I should say first *that I believe* strongly in the benefits of a firm competition policy. Competition promotes efficiency and innovation. Strong competition at home makes companies into stronger competitors overseas. Most importantly, competitive markets are *likely to deliver good value for* money for consumers.

The practices of different countries on competition policy can be classified according to two main considerations: first, whether they use a prohibition approach or an administrative approach and, secondly, what sort of institutional structure they have.

The prohibition approach *involves a legal prohibition of certain* kinds of behaviour – unless an exemption has been obtained – with penalties for engaging in such *behaviour. Under the administrative* approach, nothing is prohibited initially but questionable behaviour can be investigated and prohibited subsequently.

The UK adopts an administrative approach. In doing so, it is increasingly at variance with most international practice. The laws of the European Union, the United States, Canada and several individual countries of the EU all prohibit certain kinds of behaviour.

I would favour adoption of the prohibition approach in the UK. Our present system gives too little *incentive for the avoidance of anti*-competitive behaviour. I have long argued for the prohibition approach for restrictive agreements. A number of other anti-competitive practices could be defined and prohibited: for example, refusal to supply by companies with significant market power. I would extend this approach to breaches of regulations for utilities.

In spite of its shortcomings, UK competition law has significant strengths. One of these is in the complex monopoly provisions of the *Fair Trading Act. These give the* flexibility to investigate widespread practices which may be detrimental to consumers but cannot readily be brought into the prohibition approach.

I would continue these provisions alongside the prohibitions. I would not wish to impose excessive costs on business and I do not think my proposals would do so. They would not lead to an increase in the total number of cases.

The UK has a tripartite institutional structure, involving initial investigation by my office, the Office of Fair Trading (OFT), subsequent investigation by the Monopolies and Mergers Commission (MMC), and decision by ministers in the Department of Trade and Industry.

I favour adoption of the prohibition approach on competition policy in the UK

The strongest contrast is with a unitary competition authority, which, under a prohibition system, would have powers to investigate *cases, to grant or refuse clearances* or exemptions, to implement remedies and to impose fines – subject to appeal to the courts. Several countries have some variant of such a system.

I would favour the establishment of a unitary competition authority for the UK, headed by a small group of full-time commissioners, with procedural safeguards to separate *the investigatory and ad*judicatory functions. This would improve the operation of the UK system.

Even though the OFT makes its files available to the MMC, some duplication of effort is inevitable. More importantly, the present system makes it impracticable to deal with a case in stages to the extent that would be desirable. My making a reference to the MMC is a big event and involves heavy costs.

Understandably, the companies concerned devote extensive effort to *persuading me not to make a refer*ence. Yet my own limited information-gathering powers and functions inhibit my going further at the OFT. If I feel that further investigation is needed, the industry has to face a full MMC investigation. A unitary authority would have more flexibility in deciding how deeply to dig.

I do not think it is appropriate to involve ministers in all the decisions on the implementation of MMC reports, as happens in the UK at present, because most of the issues are not political. This view is *consistent with practice in most* other major nations.

Certain kinds of important decisions – for example involving divestment – could however be reserved for ministers, if desired. Our present system benefits from the independence of the MMC and the transparency of the system through the publication of MMC reports. These important benefits need not be lost through a change to a unitary authority.

Bryan Carsberg

The author is director general of fair trading

OBSERVER

Ode to Canary Wharf

■ How much patience does jet-setting Canadian publisher Conrad Black have with the American boondocks? Not a lot, one *rather imagines. But if the plan to* fold most of his media empire into American Publishing comes to fruition, he will shortly be spending an awful lot more time in West Frankfort, Illinois.

For the company, which at present holds Black's interest in the Chicago Sun-Times as well as 400 small US papers, is based in a modest two-storey building just off Main Street in a sleepy coal-mining town that makes Canary Wharf look like the centre of everything.

True, the tone of the *neighbourhood has recently* improved with the arrival of an insurance company across the road. The next-door dry cleaner, which used to double up as an antiques shop, has been done up.

Change is even in the air in the *office. Fresh copies of the Daily* Telegraph and the Jerusalem Post are now displayed alongside the West Frankfort Daily American, the Hubbard City News, and the North Adams Transcript.

Anyway, Black would encounter some grumbling in the ranks if he suggested relocating somewhere a trifle more upmarket. Chief executive Larry Perrotto, whose *view of the back alley where he* parks the black Cadillac is obscured by a high wooden fence, has lived in the area for the past 25 years and has so far exhibited a marked reluctance to move.

Hot air currents

■ As if the powers that be at SmithKline Beecham have nothing better to do. They have thought up a new nickname for themselves – *SB: the simply better healthcare* company. However, given yesterday's £580m restructuring charge and the various job cuts, SB could just as easily stand for the "slash and burn" healthcare company.

Best face forward

■ *In most countries, the retirement* of a 75-year-old director would be taken at face value. Not in France where controversy over André Bettencourt's recent resignation as vice-chairman of cosmetics multinational L'Oréal has spread as far as the US.

Serge Klarsfeld, France's best-known Nazi-hunter, has been lobbying the US justice department to inquire into the early wartime activity of Bettencourt, and then decide whether he should be barred from entering the United States. According to yesterday's Washington Post, the US authorities are investigating Klarsfeld's claim.

The matter of Bettencourt's sympathies was raised by Jean and David Frydman, who have had a long-standing quarrel with the company ever since Jean Frydman was sacked some years ago. Now they have dragged up some articles Bettencourt wrote in a weekly agricultural newspaper in the early 1940s.

Bettencourt, for his part, claims he was by late 1942 an active member of the French Resistance; he points to the decorations he received at the end of the war; and to the fact that his first job in government was given him by the Jewish prime minister Pierre Mendes-France.

And why the special interest in Bettencourt? Mostly because he is married to Liliane, the hugely wealthy daughter of L'Oréal founder Eugene Schueller.

Gear change

■ In the turbo-charged atmosphere of Belizean politics it is rare indeed for the opposition to agree with the government about anything. But when it comes to stolen cars, it is synchromesh all the way.

Favoured clients in the art and industry of fencing *cars pinched in* south western America, the Belizeans have recently suffered a visit from US government officials demanding that vehicles clearly identified as being stolen in America must be returned.

Belize's attorney general, Dean Barrow, won't stand for it. He demands that fences' innocent victims should be compensated – as he made abundantly clear to a US official in a broadcast discussion that degenerated into a shouting match.

But the opposition actually toots its horn approvingly on this one – *innocents must be protected against* any "invasion" by the US. Now if only they could agree on lesser matters, such as the perilous state *of the economy*...

Pas égalité

■ At last the French are uncovered as prudes after all – or some of them, anyway. The public transport authority in Lyon has banned posters for Robert Altman's new film *Prêt à Porter* which depict three very naked women.

However, consolation is at hand for the more licentious Lyonnais just two hours away by high-speed train. The sophisticated Parisians were yesterday allowed to enjoy the artistry of it all.

Job for life

■ *DG9 at the European* Commission, that looks after personnel and administration, has obviously taken care to cater for most eventualities.

It even has someone specifically in charge of pensions for orphans. She is one Mrs V. Deadman.

The Financial Times

50 years ago

Commonwealth and trade
Britain must approach the relaxation of war controls with the greatest caution, it was stated during the debates on economic relations at the British Commonwealth Relations Conference in London yesterday.

Points emerging from the discussion were that we had financed the war more successfully and with less danger of inflation than in the last war, but that disturbance and dislocation of the country's economic life had been much greater.

It was realised that our trade had been cut to ribbons and that our earnings from shipping and overseas assets had completely disappeared. It was difficult to lay down any sharp propositions for the immediate transitional period and it was not definitely known how long that period would last.

There would have to be, it was thought, priorities in rebuilding the industrial life of various countries. That meant that the direction and course of trade would be for some time and in a large measure controlled.

The FT was not published on Sunday February 24 1895

FINANCIAL TIMES
Friday February 24 1995

Italian premier urges support for mini-budget

Dini unveils emergency taxes and spending cuts

By Robert Graham in Rome

Mr Lamberto Dini, the Italian prime minister, yesterday unveiled emergency tax increases and spending cuts to cover an expected L20,000bn ($12.3bn) shortfall in the 1995 budget.

Mr Dini, the former director general of the Bank of Italy, made an impassioned plea to Italy's warring political parties to back the measures, and indicated he would be ready to introduce a confidence vote to ensure their wholesale support.

Financial markets reacted cautiously, with analysts applauding the measures, but nervous about their parliamentary passage. They added that judgment would be reserved until agreement was reached on state pensions reform, and until more was known about the precise length of Mr Dini's administration. The lira hovered around 1,100 to the D-Mark.

Mr Dini alluded to the dramatic fall in the lira caused by Italy's loss of credibility in financial markets, and warned that time was running out.

He also sought to win over Mr Silvio Berlusconi, the former prime minister and leader of the Forza Italia movement, who has been threatening either to vote against the austerity measures or to alter them. He is also demanding an early general election.

The mini-budget is one of four priorities set by Mr Dini when he agreed to head a government of non-parliamentarians last month. Two of the other goals, reform of regional election laws and regulations for fair media coverage of elections, are already before parliament. Yesterday, Mr Dini pointedly said it only remained to tackle pension reform, which would begin next week.

It is the first time such budgetary measures have been introduced so early in the year. But the 1995 budget deficit would not have been held down to its target of 8 per cent of gross domestic product because of additional cost to the debt service burden from higher interest rates.

The government is seeking to raise L15,600bn in new taxes. Of this L8,700bn will come from indirect taxes, with L5,000bn from higher oil and petrol taxes (petrol goes up L110 per litre). A further L3,000bn comes from value added tax increases on items such as private telephones.

The government is removing several personal and corporate tax write-off privileges, while companies will be asked to make advance payments on net assets. Spending cuts will total L5,000bn, mainly from transfers to local authorities and a further reduction in the annual increase in public spending to below 3 per cent – the lowest in 50 years.

Mr Dini said yesterday that the date at which the ratio of debt to GDP stabilises at 125 per cent will be brought forward from 1996 to this year. He added that if privatisation proceeded as planned, debt could be further reduced and the debt/GDP ratio decline this year.

The government estimates the new taxes will add 0.8 per cent to annualised inflation, currently running at around 4.3 per cent. Fears about a resurgence of inflation this week forced the Bank of Italy to raise the discount rate 0.75 percentage points to 8.25 per cent.

Political row over French espionage claims

By Andrew Jack and John Ridding in Paris

France's bitter industrial espionage dispute with the US yesterday triggered a French internal political row as Mr Alain Juppé, the foreign minister, demanded an inquiry into how an official report into an alleged CIA spy ring was leaked.

Mr Juppé's demand exposed divisions within France's centre-right government. It appeared to bear out concerns that the report was leaked to divert attention from a telephone-tapping scandal and enhance the nationalist credentials of Mr Edouard Balladur, the prime minister.

"I am scandalised that a delicate problem was dragged out into the open," Mr Juppé said. He demanded a full inquiry into how reports that France had demanded that five alleged US spies leave the country were leaked to the French daily newspaper *Le Monde*.

Mr Nicolas Sarkozy, the budget minister and a close ally of Mr Balladur, replied that an inquiry had already been launched on Wednesday at the interior ministry, which is responsible for French counter-intelligence.

The US government refused further comment yesterday, saying that the French authorities had over-reacted.

The telephone-tapping scandal, which erupted earlier this week, has raised questions over the leadership abilities of Mr Balladur and has brought strong criticism of Mr Charles Pasqua, the powerful interior minister. He is a key ally of Mr Balladur, a candidate for the forthcoming presidential elections. Mr Juppé is a strong supporter of Mr Jacques Chirac, the Gaullist mayor of Paris and one of Mr Balladur's main presidential rivals.

It emerged yesterday that at least one of the diplomats allegedly connected to the spy ring had left Paris some time ago.

Le Monde alleged that Mr Pasqua had demanded twice in meetings with Ms Pamela Harriman, the US ambassador, that five US citizens leave the country.

The domestic political row reflects an increasingly divisive campaign for the April/May presidential elections. An Ipsos poll released yesterday confirmed that Mr Balladur has lost his commanding lead.

According to the poll, the prime minister, Mr Chirac, and Mr Lionel Jospin, the Socialist candidate, are all level on 22 per cent of voting intentions.

The political right received some good news with the announcement that the the left-wing Radical party would field its own candidate, Mr Jean-François Hory, for the presidential contest.

Spy's new target, Page 2
Editorial Comment, Page 15

THE LEX COLUMN

Shelling out

It is going a little far to say that a company with cash and short-term securities of £7.4bn and negligible net borrowings is financially stretched. But Shell's dividend cover has dropped from 3 times in 1986 to 1.6 times last year. Even though cash flow cover looks more comfortable, Shell is under pressure to rebuild this key ratio.

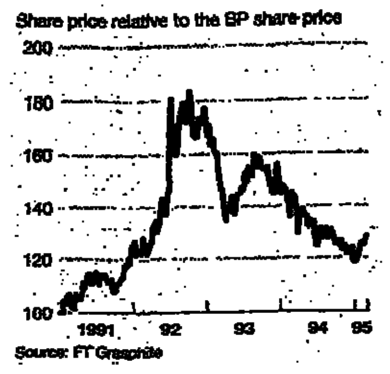
The group is circumspect about how it intends to improve earnings in the year ahead. Further cyclical upturn in chemicals and the expected recovery in core upstream and downstream activities will help. It has made sterling efforts to restructure its business portfolio, to tidy up underperforming businesses such as Shell Oil in the US, and to reduce staff costs and improve productivity. As a result, return on capital rose to 10.4 per cent last year from 7.9 per cent in 1993. But it needs to do more if it is not to fall behind international competitors, and indeed BP's return on capital overtook Shell's in the fourth quarter after lagging for many years. Shell's planned reduction of head office costs will lead to large savings, but rationalisation ought to be more extensive.

If Shell's slow-moving corporate culture means such measures are difficult to implement, the management could step up the pressure on itself by distributing some or all of its cash to shareholders. That is unlikely to happen, though, suggesting that change will be slow. Shell will retain its estimable defensive qualities, but BP's indebtedness offers greater gearing to recovery.

FT-SE Eurotrack 200: 1375.3 (+10.2)

Shell Transport

Share price relative to the BP share price



Source: FT Graphite

SmithKline Beecham

SmithKline Beecham should be pleased with itself. Few drugs companies are capable of generating any sales growth in the year their top-selling product loses US patent protection. Yet SB's underlying pharmaceuticals sales expanded 5 per cent. Excluding Tagamet, SB's former blockbuster, the group is among the fastest growing in the drugs industry. That is partly thanks to SB's marketing skills which helped the anti-depressant Seroxat and Relafen, its arthritis treatment, do well in such competitive markets. SB's skinflint grip on costs is also impressive: selling, general and administrative expenses were static, even though group turnover rose 8 per cent. Further savings will be achieved through the latest restructuring.

Among the few flies in the ointment is DPS, the US drugs distributor which SB acquired last year for $2.3bn. For competitive and regulatory reasons, management feels the need to keep mum about the gains wrung from the business. The lack of transparency may be understandable, but is nevertheless frustrating.

Earnings growth this year will be held back by the costs of rationalisation, increased investment and hefty capital gains tax on disposals. Beyond, prospects for this refocused organisation are excellent, given new products in the pipeline and the absence of any significant patent expiries for the rest of the decade. Despite the shares' 30 per cent outperformance in the past year, the prospective price/earnings ratio of 14 remains undemanding.

Telegraph

Mr Conrad Black may say he has not been blackballed by the City. But it is hard to see any other explanation for his plan to get his quoted US vehicle, American Publishing, to buy out the Telegraph's minority shareholders. Since Cazenove resigned as his broker following his controversial sale of Telegraph shares just before the paper slashed its cover price last year, Mr Black has not been well-placed to raise capital in the City. And, given his many ambitions, capital is what he needs.

It is Mr Black's need to move to a more welcoming capital market that gives the minority shareholders leverage in the coming negotiations over price. Mr Black may argue that, if the minority does not like what is offered, that is too bad; he will sell his 58 per cent stake to American Publishing anyway. But there would be an element of bluff in that. If Telegraph shares continue to trade in London and suffer a discount because of their association with Mr Black, American Publishing's valuation will be depressed too. That would undermine his capital raising plans.

In winning over the minority, Mr Black will also have to offer sufficient cash to allay concerns that he is buying them out just as the UK newspaper price war is about to end. Even if he does offer a good price, it remains to be seen whether Wall Street will be more welcoming than the City. The first test will be whether American Publishing, whose market value is only $260m, is able to raise the £250m or so needed to buy the minority.

British Gas

British Gas has been bitterly berated for making excess profits. But yesterday's announcement of a 12 per cent drop in profit before exceptional items and a flat dividend hardly smacks of a bonanza. Of course, the picture was distorted by the extraordinarily warm November and December, which knocked an estimated £144m off profits. But British Gas's pre-exceptional current cost return on capital of 5.6 per cent does not seem excessive, particularly compared with the double digit returns achieved by some water and electricity companies.

However, there are signs that British Gas's outlook is improving. Of course, much of this comes down to nuance. It is not in the group's interests to demonstrate that cost cutting is ahead of plan in both scale and timing. But the efficiency focus is broadening to non-regulated businesses, particularly exploration and production where there is scope for improvement. The benefits should start to come through this year.

But uncertainty remains. Regulatory reports are due soon on its core gas transport business and also on competition in the supply of gas to large users, where it has faced a discriminatory regime. And its naive handling of substantial executive pay increases has won few friends. However, gearing has fallen dramatically, so its 6.3 per cent prospective yield looks secure. This limits any downside in the share price, and the upside could come from concrete evidence of a more rapid pace of cost cuts.

Additional comment on Trafalgar House, Page 22

AT&T

Continued from Page 1

candidates have been granted a few more days to make their final submissions. The French government is expected to take several weeks before completing privatisation arrangements.

The final privatisation agreement is likely to involve the combination of some of the offers, with France Télécom retaining its 17 per cent stake in the company and several smaller investors also entering the company's capital.

Bull officials declined to comment on the decision by AT&T and Quadral. But the joint proposal is thought to have been opposed by Mr Jean-Marie Descarpentries, the chairman of Bull.

He favours a dispersed shareholding structure with no single company or group exerting a dominant influence.

Dow record

Continued from Page 1

gilts up three-quarters of a point, and 10-year German Bunds up by over half a point.

Stock markets in Brazil and Argentina were up by more than 7 per cent and 3 per cent respectively in early trading, but the Mexican stock market failed to join the rally, dropping by more than 3 per cent.

Some analysts warned that investors might be too optimistic in assuming that the US economy was slowing. Mr George Magnus, international economist at S.G.Warburg in London, believes US interest rates will have to rise further.

Brussels rebuffs US on candidates for top WTO job

By Caroline Southey in Brussels

The European Commission yesterday rejected US suggestions that the three declared candidates for the post of director-general at the new World Trade Organisation should stand down to break an international deadlock over the appointment.

"To ask the EU to abandon its candidate is quite extraordinary," a Commission official said. "It is quite ludicrous to argue that all three candidates should drop out, particularly when you have one so far in the lead."

The suggestion by Mr Booth Gardner, US ambassador to the WTO, on Wednesday came after figures were published showing the EU's preferred candidate, Mr Renato Ruggiero, as the clear favourite to succeed Mr Peter Sutherland.

Mr Ruggiero, a former Italian trade minister, was backed by 57 countries, against 29 for Mr Kim Chul-su of South Korea and 28 for Mr Carlos Salinas de Gortari, the former Mexican president.

The US has supported Mr Salinas but his candidacy has been tainted by the financial crisis in Mexico.

The sharp response from Brussels is the first time tensions in the eight-month stalemate have broken out into the open and indicates a growing impatience at the failure to break the deadlock.

It is likely to complicate negotiations among WTO countries, which must reach a decision by consensus. Commission officials believe the deadlock is unnecessary because one candidate is clearly in the lead. "The WTO is within view of a consensus," the Commission official said.

Although the regional pattern of support for the candidates has held firm, Commission officials say several Latin American and Asian countries have indicated they will back Mr Ruggiero if the other candidates step aside.

"There are a number of second preference votes waiting in the wings," a senior Commission official said. But neither Mr Salinas nor Mr Kim, a veteran trade diplomat, has shown any sign of standing down.

Commission officials also believe that, although the US administration has maintained its official backing for Mr Salinas, Washington is "trying to find an honourable way out".

"The Americans have painted themselves into a corner and want to find a way out," an official said.

Mr Sutherland is due to leave his post on March 15. There have been suggestions he may be asked to stay on, but the Commission official said yesterday "there were no signs Mr Sutherland had any intention of staying beyond that date".

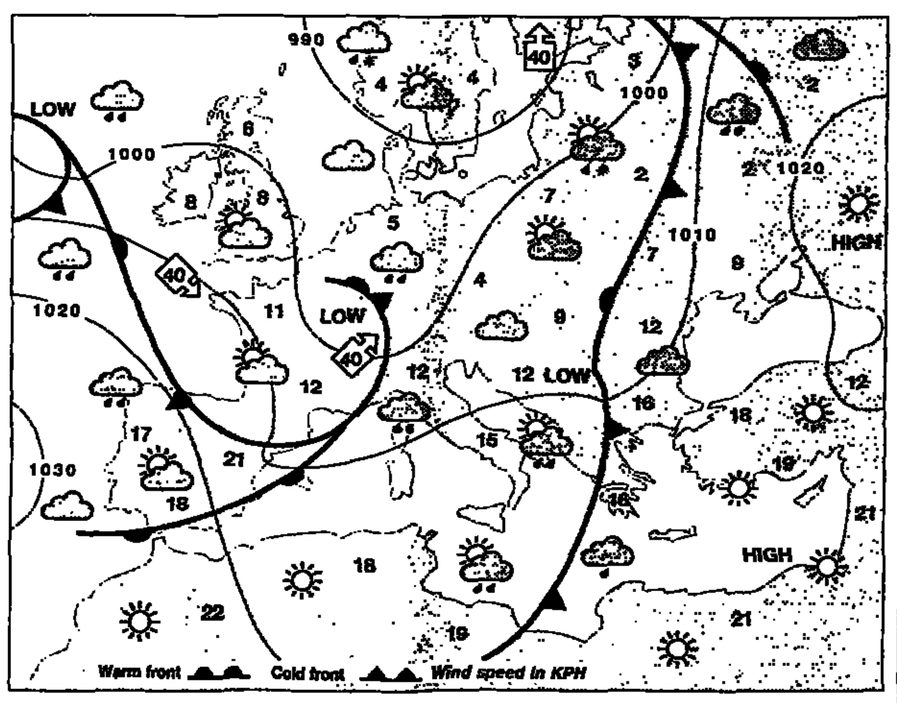
FT WEATHER GUIDE

Europe today

France, the Benelux, and the Channel will have rain, as a depression moves eastward towards central Germany.
The western Alps will have snow for most of the day.
The freezing level will drop to about 1000 meters during the course of the day.
Cloud and rain will approach western Ireland in the afternoon, but the British Isles will have sunny intervals, particularly in the morning.
Southern Spain and Portugal will be unseasonably warm, with temperatures exceeding 20C.
Greece and the former Yugoslavia will have cloud and occasional rain.

Five-day forecast

A depression will cross the North Sea on Saturday bringing rain to the North Sea countries.
The western part of the Continent will be cooler on Sunday but mild conditions are expected again early next week. The Dolomites and the southern Alps will have a snow on Sunday.
Spain and southern France will turn cooler early next week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																
			Beijing	cloudy	10	Caracas	sun	29	Faro	sun	19	Madrid	fair	17	Rangoon	sun	32
			Belfast	rain	7	Cardiff	fair	8	Frankfurt	rain	6	Majorca	fair	17	Reykjavik	snow	0
Abu Dhabi	fair	25	Belgrade	cloudy	15	Casablanca	fair	18	Geneva	rain	8	Malta	fair	16	Rio	fair	30
Accra	fair	32	Berlin	cloudy	8	Chicago	fair	0	Gibraltar	sun	20	Manchester	fair	8	Rome	shower	14
Algiers	fair	18	Bermuda	fair	23	Cologne	rain	6	Glasgow	shower	6	Manila	cloudy	31	S. Frsco	fair	17
Amsterdam	rain	6	Bogota	fair	20	Dakar	fair	25	Hamburg	fair	5	Melbourne	sun	33	Seoul	fair	6
Athens	cloudy	17	Bombay	sun	31	Dallas	sun	20	Helsinki	sleet	4	Mexico City	fair	19	Singapore	shower	31
Atlanta	sun	10	Brussels	rain	6	Delhi	fair	23	Hong Kong	rain	17	Miami	fair	26	Stockholm	fair	4
B. Aires	fair	25	Budapest	fair	9	Dubai	fair	25	Honolulu	fair	26	Milan	fair	11	Strasbourg	rain	9
B.ham	cloudy	8	C.hagen	hail	5	Dublin	fair	8	Istanbul	cloudy	15	Montreal	snow	-3	Sydney	cloudy	25
Bangkok	fair	34	Cairo	sun	20	Dubrovnik	shower	14	Jakarta	shower	30	Moscow	sleet	3	Tangier	fair	18
Barcelona	fair	16	Cape Town	sun	27	Edinburgh	fair	6	Jersey	rain	8	Munich	cloudy	7	Tel Aviv	sun	19
									Karachi	fair	28	Nairobi	fair	28	Tokyo	fair	11
									Kuwait	fair	17	Naples	fair	14	Toronto	snow	-10
									L. Angeles	fair	21	Nassau	fair	25	Vancouver	rain	15
									Las Palmas	fair	21	New York	shower	8	Venice	shower	9
									Lima	fair	28	Nice	shower	11	Vienna	fair	8
									Lisbon	fair	18	Nicosia	sun	19	Warsaw	fair	8
									London	rain	9	Oslo	fair	3	Washington	fair	8
									Lux.bourg	rain	6	Paris	shower	10	Wellington	fair	19
									Lyon	rain	11	Perth	shower	32	Winnipeg	snow	-5
									Madeira	fair	18	Prague	fair	8	Zurich	rain	6

FINANCIAL TIMES
COMPANIES & MARKETS
Friday February 24 1995

IN BRIEF

Siemens builds on early gains

Earnings at Siemens, the German electrical and electronics group, have continued to rise since the first-quarter increase and the group is confident of meeting its targets this year, according to Mr Heinrich von Pierer, chairman. Page 18

AT&T withdraws from Bull talks
AT&T, the US telecoms giant, has broken off talks with the French government over plans to take a stake in Groupe Bull, the computer manufacturer which is being privatised. Page 18

American Maize agrees Eridania offer
The directors of Connecticut-based American Maize Products have agreed to an offer by Eridania Béghin-Say, the French food subsidiary of Montedison of Italy. Page 19

Two US retailers show falls
J.C. Penney and Spiegel, two big US retailers running catalogue businesses as well as stores, saw their share prices slip against a rising stock market yesterday as they reported disappointing fourth-quarter performances. Page 19

Mayne Nickless progresses
Mayne Nickless, the Australian transportation, security services and healthcare group, yesterday announced profits after tax and abnormals in the half-year to January 1 of A$73.4m (US$54.1m). Page 20

Renison launches bid for Pancontinental
Renison Goldfields, the Australian mining house in which the international conglomerate Hanson has a 39.6 per cent stake, has made a hostile offer, said to be worth A$440m (US$323m), for Sydney-based Pancontinental Mining. Page 20

Restructuring continues to bite
British Gas reported better-than-expected progress in its radical restructuring to prepare the group for the abolition of its domestic monopoly in 1998. Page 22

Restructuring pull SB back to £657m
A £580m ($922.2m) restructuring charge and a £216m one-off tax bill left 1994's profits and earnings sharply lower for SmithKline Beecham, the pharmaceuticals and healthcare company. Page 23

ICI says global recovery has just begun
The recovery in the world's chemicals industries has only just begun, said Sir Ronald Hampel, ICI's chief executive yesterday. Page 23

New stores help boost Swedish retailer
Hennes & Mauritz, the Swedish fashion retailer, yesterday reported a 27 per cent rise in pre-tax profits in its 1993-94 financial year, to SKr1.6bn ($219.6m) from SKr1.26bn a year ago. Page 18

Physical gold supply gap forecast
Physical demand for gold this year and in 1996 will be well ahead of supply, leaving a gap that could only be filled by "prompted disinvestment". Page 29

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	2506	+	40
Bay Vereinsbnk	440	+	6.5
Kaufhof	482.5	+	7.5
Lufthansa	205.5	+	7
MAN	410.5	+	7.3
Metallg'lschaft	131	+	6
NEW YORK ($)			
Rises			
Boston Chicken	18¾	+	1½
Shawmut Nat	25	+	4⅞
Toy Biz Inc	20¼	+	2¼
US Shoe	19¾	+	2
Falls			
Borden Chem	17⅞	−	1⅛
Intermagnet	11⅞	−	2⅛
LONDON (Pence)			
Rises			
Arjo Wiggins	251	+	12½
DCS Group	81	+	5
Horace Small	104	+	8
Telegraph	434	+	54
Tepnel Life	33	+	5
Falls			
Northern Elec	1053	−	75
TORONTO (C$)			
Rises			
PL Energy	28⅛	+	2⅛
Imax Corp	12	+	2
Intl Murex	8¼	+	1⅛
Spectral Diag	29½	+	4½
Falls			
Can Fracmaster	7¾	−	¾
Inverpower	9½	−	1
PARIS (FFr)			
Rises			
AXA	232.8	+	6.6
Gent des Eaux	473.9	+	21.7
Elf Sanofi	272.7	+	6.5
Remy Cointreau	178.9	+	6.8
Taittinger	2400	+	213
Falls			
Gaumont (Sc N)	256.2	−	24.8
TOKYO (Yen)			
Rises			
Toyo Constn	640	+	23
Falls			
Hitachi Sales	588	−	22
Minebea	813	−	34
Teikoku Oil	844	−	29
Tokyu	622	−	27
Yasuda Fire	631	−	29
HONG KONG (HK$)			
Rises			
Cathay Pac Air	12.15	+	0.40
Citic Pacific	18.4	+	0.7
Cons Elec Pwr	16.4	+	0.65
Henderson Land	38.5	+	1.0
Falls			
Lai Sun Intl	7.7	−	0.55
Min Xin Hldgs	1.42	−	0.33
BANGKOK (Baht)			
Rises			
Thai President	252	+	20
Unithai Guide	139	+	10
Falls			
North Star	96	−	9
Pranda Jewelry	91.5	−	8.0
Thai Agri Foods	59	−	6
Thai Toray Tex	90.5	−	8.5

New York and Toronto prices at 12:30.

Trafalgar lifts bid but warns on profit

By Peggy Hollinger and Geoff Dyer in London

Trafalgar House yesterday slightly sweetened its £1.2bn ($1.9bn) hostile takeover bid for Northern Electric, the UK regional electricity distributor, but warned its own shareholders to expect a loss in the first half of the current financial year.

In a further twist to a bid which has been dogged by controversy, Trafalgar – whose businesses include Cunard cruise liners – told shareholders at its annual meeting that full-year results would be disappointing.

Northern called on London's Takeover Panel to investigate why Trafalgar had not made its profits position more clear earlier in the bid.

Institutional investors said the outcome was far from certain, given the small increase in the cash offer. "Northern could well escape," said one substantial shareholder. "It is by no means a knock-out bid."

The engineering, hotels and shipping conglomerate increased its cash offer by a marginal 52p to £11, valuing Northern at £1.23bn. The market had been expecting a cash offer of £11.50 to £12. The cash-and-share offer was also revised and is now worth £10.81. The market was clearly disappointed with the offer, and Northern's shares closed 75p lower at £10.53.

It also emerged yesterday that Swiss Bank Corporation and Robert Fleming, Trafalgar's advisers, could end up owning a substantial stake in their client as a result of the revised offer, which is partly funded by a £735m convertible preference share issue.

Trafalgar's advisers and its brokers, UBS and Cazenove, have underwritten part of the issue and could be left with about 20 per cent of the enlarged company if Northern shareholders all choose to accept cash. HongKong Land, which owns 26 per cent of Trafalgar, has agreed to buy the first £315m of preference shares.

Northern was confident its defence package would still sink the increased bid. "The Tyne Bridge is a bridge too far for Trafalgar," said Mr David Morris, chairman of the north-east England-based company. He said the bid remained woefully inadequate and had come from a company with "disappointing results and whose management is fully extended".

Trafalgar's profit warning surprised the stock market, in spite of earlier gloomy trading statements and the highly publicised problems with Cunard.

Analysts, who had been predicting half year pre-tax profits of £20m-25m, lowered full-year forecasts from £90m to £55m. Trafalgar's shares fell 1p to 64½p.

Mr Nigel Rich, Trafalgar's chief executive, told shareholders at the annual meeting that markets were "beginning to turn, but it will be some time before we see the benefits in engineering".

Lex, Page 22; Preference shares at new low, Page 22

Hollinger chief assures **David Wighton** he was not blackballed by the City and may be back

Black finds a new rack for the Telegraph

Mr Conrad Black, chairman of The Telegraph, yesterday denied that the reason he was planning to buy out the newspaper group's minority shareholders was that he had been "blackballed" by the City.

He said his relations with most people in the City were "quite good" adding that he was not turning his back on London forever. "It may not please all of your readers, but I don't feel the City has necessarily seen the last of us," he said.

Hollinger, Mr Black's Canadian-based master company which owns 58.5 per cent of The Telegraph, announced late on Wednesday night that it planned to buy out the other shareholders as part of a wider reorganisation of Mr Black's newspaper empire.

American Publishing Company, a US-quoted Hollinger subsidiary which owns the Chicago Sun Times and The Jerusalem Post, will buy Hollinger's holding in The Telegraph and offer cash or shares for the minority shares.

Analysts suggested that the decision to give up The Telegraph's London listing reflected the fact that Mr Black would find it impossible to raise further funds in the City.

This follows the controversy over Hollinger's sale of £79m worth of Telegraph shares to institutions last May. A month later The Daily Telegraph cut its cover price and the shares slumped by 40 per cent.

The Stock Exchange cleared Mr Black of any wrongdoing but Cazenove resigned as The Telegraph's stockbrokers in a move which Mr Black described as "scandalous and dishonourable".

He said that there was "no evidence" that if he wanted to raise money in London he would not be able to do so.

"Huge amounts of money have been raised for dubious reasons by people with much more indifferent reputations than me."

But by folding The Telegraph into American Publishing Mr Black believes he can create a vehicle large enough to access the US markets. "The US is a more interesting and a larger capital market," he said.

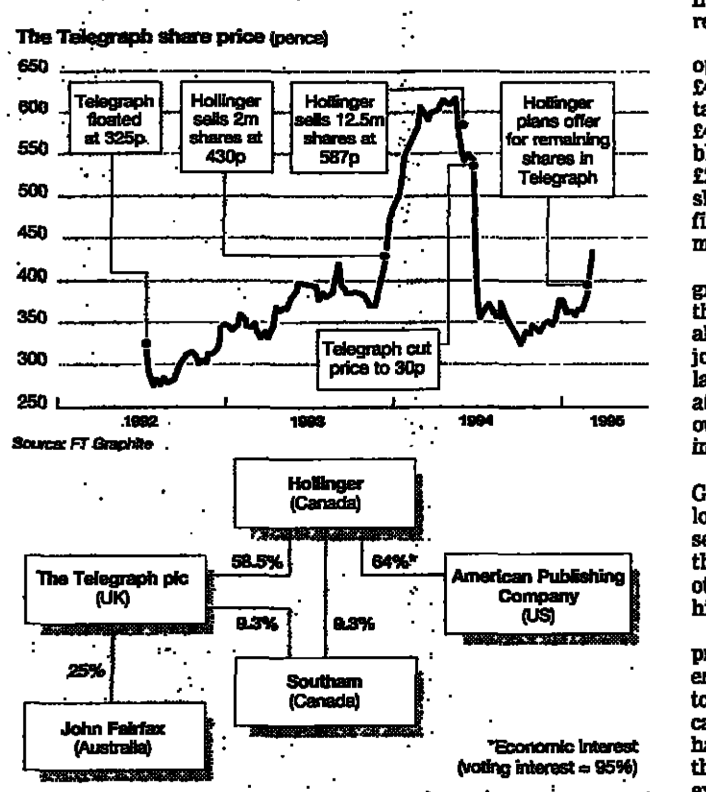
Mr Black said the group may want to raise funds to take advantage of any opportunity to increase its stake in John Fairfax, the Australian newspaper group in which The Telegraph has a 25 per cent holding.

Under Australia's foreign ownership rules for media assets The Telegraph is limited to a 25 per cent stake but Mr Black said that he was hopeful that the limit might be lifted in due course. He said that comments by the Australian prime minister last week had been a "good omen".

Before then, American Publishing will need to raise money to acquire the minority shareholders in The Telegraph. At yesterday share price of 434p, up 54p, the minority shares are valued at £240m, compared with American Publishing's market value of $256m (£160m).

Hollinger's advisers, Merrill Lynch, argue that some Telegraph shareholders would take shares in American Publishing.

Inside the Black box



Source: FT Graphite

But analysts believe most Telegraph shareholders will opt for cash.

Hollinger said: "Depending on the extent to which the cash option is chosen by The Telegraph public shareholders, American Publishing may follow the reorganisation with an equity issue to reduce or replace interim indebtedness incurred to effect the purchase." Hollinger appears confident that it will be able to raise the money despite the fact that American Publishing's shares have fallen from a flotation price of $13 a share last April, when it raised about $100m, to about $11 now.

The publicly traded A shares have a tenth of the votes of the B shares held by Hollinger which give it 95 per cent of the voting rights. Investors who bought into company composed largely of US newspapers – including the Chicago Sun-Times and 374 local papers – will be asked to support the acquisition of a largely UK group which is in the middle of a bitter price war.

Mr Black said that being part of a larger group would enable The Telegraph to react to changes in its "intensely competitive" market without worrying so much about the impact on its profits and share price.

He added that The Telegraph had performed remarkably well in the newspaper price war started by Mr Rupert Murdoch's News International in September 1993 when the price of The Times was cut from 45p to 30p. In June 1994 The Telegraph cut its price from 48p to 30p, and The Times responded with a drop to 20p.

As a result, The Telegraph's operating profits tumbled from £42.9m to £20.1m in 1994 but pre-tax profits fell by only £8.7m to £45m, thanks to a more than doubled share of Fairfax's profits of £24.3m (£11.2m). Earnings per share were 23.4p (27.4p) and the final dividend of 7.5p gives a maintained total of 13p.

Mr Stephen Grabiner, The Telegraph's managing director, said that it had spent £3.5m on rationalisation with the loss of about 50 jobs but that cost-cutting was largely completed. "We are operating as near to the bone as we ought to consistent with producing a quality newspaper."

Looking forward to 1995 Mr Grabiner said that a full year of lower cover prices would be offset by strong advertising and that reduced promotional and other costs would compensate for higher newsprint prices.

Hollinger has yet to agree a price for the minority shareholders, which the independent directors, advised by N. M Rothschild, can recommend. But speculation has focused on a price of 450p, the level at which Hollinger can exercise an option on 5 per cent of the shares held by the former owners of the group. Mr Derek Terrington, analyst at Kleinwort Benson, calculates that at 450p the shares are on a 50 per cent premium to the market for 1995. "But clearly their value depends on how long the price war lasts."

Mr Black said he had "no idea" when Mr Murdoch was likely to end the price war and added: "Our long-term view is that the share price will rise. But we don't know when, we don't how much, and we are not certain in the first place." As for the minority price he made one prediction: "There should be nice capital gain for those who were in at 285p [the price at which the shares started trading]". Those who bought from Hollinger at 587p last May are unlikely to be so lucky.

Lex, Page 16

Chemicals and cost reductions lift Shell

By David Lascelles, Resources Editor, in London

The Royal Dutch Shell group reaped the benefits of cost-cutting and a buoyant chemicals market to produce strong results for the final quarter of 1994.

Earnings on a replacement cost basis, which excludes the effects of oil price changes, were 28 per cent higher at £1.1bn ($1.7bn). Non-repeatable items of £502m brought the total up to £1.6bn, more than double the 1993 final quarter.

Mr John Jennings, chairman of UK-based Shell Transport and Trading, which constitutes 40 per cent of the group, described it as "a fine fourth quarter" which pushed the full-year result to record levels. The final total was £3.9bn, a rise of 24 per cent.

Shell is proposing a final dividend of 15.9p, which will bring the year's total to 27.1p, an increase of 12.9 per cent. Mr Jennings said the increase partly reflected the depreciation of sterling against the guilder.

The result produced mild disappointment in the London stock market which had been looking for more dramatic evidence of recovery at Shell. The shares closed down 4p at 720p.

The results were lifted by a sharp turnround in the chemical business, where two years of restructuring work enabled Shell to benefit from the strong improvement in petrochemicals prices. A £409m loss in 1993 was turned into a profit of £340m.

Earnings from exploration and production were also up in the fourth quarter, though by a more modest 18 per cent. For the whole year earnings from exploration and production showed a 23 per cent fall because of the softness of oil and gas prices.

At the downstream end, which includes refining and marketing, earnings also came under pressure ending down 12 per cent, excluding non-repeatable items.

Mr Jennings said he was encouraged by Shell's cost-cutting progress, but there was still a long way to go before the group achieved a sustainable and acceptable level of profitability, particularly as he did not expect a strong rise in the oil price.

The group will maintain its capital expenditure at about $10bn-12bn a year, but outlays will concentrate on oil and gas activities now that Shell is near the end of its sale of non-core businesses.

Lex, Page 16; Cost-cutting pays off, Page 23

Hugh Carnegy examines a watershed in Swedish industry

Saab-Scania whets appetites for next chapter of change

Like film-goers convinced that the movie they have just seen will be followed by a sequel, watchers of Sweden's Wallenberg industrial empire were yesterday wondering what the next instalment of the Saab-Scania restructuring story would be.

Some answers may be revealed today when Investor, the Wallenbergs' main holding company which wholly owns the vehicle and aerospace group, holds a press conference at its Stockholm headquarters to announce its 1994 results.

What many eager investors hope to hear from Mr Claes Dahlbäck, the long-time Wallenberg lieutenant who heads Investor, is that a large chunk of Scania, the highly profitable truck maker now being set up on its own, will be soon be floated on the Stockholm stock exchange.

But the decision on Wednesday to break up Saab-Scania has much wider implications for both groups and for the whole Wallenberg sphere than simply the potential to cash in on Scania's success in the world's heavy truck markets.

First, the restructuring marks a watershed for one of Sweden's leading industrial groups. Saab-Scania was put together by the Wallenbergs more than 25 years ago to combine the aerospace and (at the time) motor car expertise of Saab with the truck and bus-making knowledge of Scania. But over the years, the combination has become increasingly disjointed – in 1989 Saab-Scania sold a half share of the ownership and almost complete management control of Saab Automobile to General Motors of the US.

"The synergies between Saab and Scania diminished and today there are no synergies. At Scania it has always been an unhappy marriage," one Scania executive said.

For Scania, the break-up means it can push ahead unshackled, building on its position as the world's fifth largest – and one of the most profitable – truck companies. With a 61 per cent jump in its order book in the first nine months of last year and a 14 per cent operating margin (twice that of Volvo's truck operations), Scania is riding a rising cycle.

The outlook at loss-making Saab is less optimistic. Its two main pillars, the military and civil aircraft manufacturing operations, are beset by strategic problems. The new JAS 39 Gripen fighter aircraft, developed at a cost of SKr60bn ($8.16bn), has yet to attract any of the 500 export orders Saab projected to make a return on its investment. It has recently entered an agreement with British Aerospace to help it find overseas buyers.

A slump in the civil aerospace market has also hit sales of Saab's 340 and 2000 turbo-prop commuter airliners. Both the military and civil operations relied heavily in the past on government support for development costs. Cynics say the Wallenbergs will now try to secure government aid to prop up the operations. Saab executives say the company is now better placed to seek international partnerships needed to secure its long-term future.

As far as Saab-Scania is concerned, therefore, the industrial logic of the break-up is clear. But from the perspective of the Wallenberg business as a whole, the restructuring seems more a preparation for further steps rather than an end in itself.

Since Investor took over 100 per cent of Saab-Scania in 1991, the group has appeared a misfit. Investor has controlling interests in a range of blue-chip companies such as Astra, Ericsson, Stora and SKF, but only Saab-Scania is wholly-owned. Since Scania's recent lift for Saab-Scania out of the profits trough, analysts have pointed out that Investor has not benefited from a full valuation of the group.

Indeed, Investor has been trading at a 35 per cent discount to its net asset value. One Swedish newspaper calculated yesterday that if Saab-Scania's full market worth of an estimated SKr30bn was included in the Investor share price, the latter would stand at around SKr300, rather than its present SKr200 level.

A key justification for the takeover of Saab-Scania in 1991 was the Wallenbergs' need for cash flow. But today, the post-recession dividend stream from Investor's other holdings is so strong that this need is much less obvious. Last year, the Wallenbergs signalled they were on the look out for acquisitions to shift the emphasis within their wide ranging interests away from traditional cyclical sectors towards growth industries. Hence, the speculation that a flotation of Scania will follow.

Some observers also suggest the Wallenbergs may want to sell their remaining 50 per cent share in Saab Automobile (now to be directly held by Investor) to GM.

However, there is no immediate financial or other pressure on Investor – which will unveil big profits gains today – to take these steps. Details such as the capitalisation of Saab and Scania may be revealed. But Mr Dahlbäck could choose not to give away all the secrets of the next episode, preferring to allow time for the new structure to settle.

Siemens builds on first-term gains

By Andrew Fisher in Frankfurt

Earnings at Siemens, the German electrical and electronics group, have continued to rise since the first-quarter increase and the group is confident of meeting its targets this year, Mr Heinrich von Pierer, chairman, said at the annual meeting yesterday.

He said turnover in the first four months was 8 per cent higher at DM25.8bn ($17.6bn). The order inflow rose 1 per cent to DM29.6bn, but the comparative period of the previous year included several large projects: excluding these, the increase was 4 per cent.

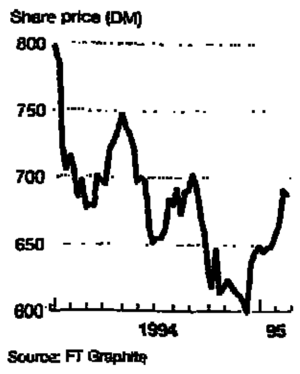
Siemens has already reported an increase of 8 per cent in first-quarter earnings, to DM448m, and forecast a 20 per cent advance for the full year to September 30.

Mr von Pierer said the positive business trend at home and abroad showed the group was on the way to achieving its goals for turnover of DM90bn and order inflow of DM88bn.

In 1993-94, Siemens' net profits fell 17 per cent to DM1.65bn. However, a profit on the sale of a heart pacemaker subsidiary left final earnings 1 per cent higher at DM1.99bn. Turnover was 4 per cent higher at DM84.6bn, with new orders up 5 per cent at DM88.4bn.

Mr von Pierer said Siemens would step up its cost-cutting and productivity improvement programmes to achieve its target for this year of DM2bn net income without extraordinary profits. Last year's return on capital was 9.4 per cent, including the pacemaker sale profits, but the medium-term goal is 15 per cent. He said Siemens was benefitting from an upturn at its semiconductor operation – previously, a heavy lossmaker – which was making a considerable contribution to profits.

Siemens



Source: FT Graphite

Siemens Nixdorf, the computer subsidiary, had reduced losses further, despite high restructuring costs and lower market prices, and would make an operating profit this year for the first time.

Overall, Mr von Pierer said, the group improved productivity by 6 per cent last year, a saving of DM5.2bn on costs.

However, cutting costs and lifting productivity was not enough. Siemens also had to speed up innovation.

Some DM7.5bn, or 9 per cent of turnover, was being spent on research and development. In the past five years, R&D spending has totalled some DM70bn.

Two-thirds of turnover came from products and systems less than five years old, compared with only half 10 years ago.

New stores help boost Swedish retailer

By Hugh Carnegy in Stockholm

Hennes & Mauritz, the Swedish fashion retailer, yesterday reported a 27 per cent rise in pre-tax profits in its 1993-94 financial year, to SKr1.6bn ($219.6m) from SKr1.26bn a year ago.

The group, which has expanded rapidly outside Sweden in recent years, said sales rose 20 per cent. Some of the increase was attributed to the 37 new stores added to the network during the review period. H&M now has 357 stores in nine European countries, including Austria where it opened for the first time last year.

Gross sales including value-added tax reached SKr13.5bn in the year to November 30 1994, against SKr11.5bn the year before. Sales net of VAT rose to SKr11.5bn from SKr9.8bn, while operating profits were ahead at SKr1.7bn from SKr1.35bn.

H&M said 70 per cent of sales were now outside Sweden, with Germany overtaking the company's home country as its biggest single market. It spent SKr500m on developing its store and distribution network last year, and plans to open some 40 new stores in 1995.

The company was a top 10 performer on the Stockholm stock exchange last year, rising 50 per cent.

Its formula of selling high-fashion clothing for women, men and children at keen prices has attracted growing attention from domestic and foreign investors.

However, yesterday's result was at the low end of analysts' forecasts, and the share price slid SKr9 to SKr418.

H&M said it was raising its annual dividend to SKr7.75 from SKr6.

Solid sales growth lifts net 20% at Hagemeyer

By Ronald van de Krol in Amsterdam

Hagemeyer, the Dutch-based international trading group, posted a 20 per cent increase in net profit before extraordinary items in 1994 and forecast a further, unspecified rise in 1995.

It also announced a two-for-one share split to take effect in May, roughly two years after a similar share split in 1993.

Net profit before extraordinary items rose to Fl 147.1m ($89.2m) from Fl 122.6m, and the dividend was raised to Fl 3.60 a share from Fl 3.24.

Sales totalled Fl 4.73bn, an increase of 22.1 per cent. Of this, 9 percentage points represents organic growth and the rest the effect of acquisitions and partnerships, such as a big Asian-Pacific joint venture with Cosa Liebermann of Switzerland.

Total net profits rose more than 35 per cent to Fl 217.6m, reflecting a net extraordinary gain of Fl 70.5m generated mainly by the unravelling of Hagemeyer's agency relationship with Matsushita, the Japanese electronics group, in Singapore.

Most parts of Hagemeyer's three businesses – electro-technical supplies, consumer and professional products and speciality foods – reported sales growth above the average of the past few years, Mr Andrew Land, chairman, said.

Operating profit margins dropped slightly, to 5.1 per cent from 5.3 per cent in 1993.

Mr Land blamed this on the new mix of businesses following the acquisition of Newey & Eyre, the British electrical distributor. Margins in British electrical distribution are lower than in the Netherlands and Germany, Hagemeyer's other two main markets in this sector.

Mr Land said he "wouldn't be surprised" if Hagemeyer bought another distributor of speciality foods in the US this year, as part of its goal of building up a network of state-wide and regional companies there.

Third bidder in Czech telecoms race

By Vincent Boland in Prague

PTT Telecom Netherlands and Swiss Telecom have joined forces to bid for a stake in SPT Telecom, the Czech Republic's state-owned telephone operator. Their preliminary offer is expected to be made today.

The two telecoms have formed TelSource, in which PTT Telecom holds a 51 per cent stake and Swiss Telecom, the balance. TelSource will bid for the 27 per cent of SPT the Czech government is offering to a strategic foreign partner.

AT&T, the US telecoms group, is to co-operate with TelSource through a related agreement to supply technology, know-how and personnel to SPT. It had been expected to bid for the stake, either alone or in a consortium, but said yesterday it would not be making an offer.

"Our total involvement is through [the agreement with] TelSource," said Mr John Foster, head of AT&T's telecommunications services division. AT&T is not an equity partner in TelSource and will not be supporting its bid financially.

Mr Foster said AT&T's decision to pursue an alliance with SPT through the agreement with TelSource was consistent with its European strategy, which "is at the service level".

AT&T is the second US operator to withdraw from the SPT bidding, following Southwestern Bell's pull-out earlier this month. The US "Baby Bell" had been expected to link with TeleDanmark.

TelSource becomes the third consortium to express an interest in the SPT stake. Bell Atlantic and France Télécom have formed an alliance, and Deutsche Telekom and Ameritech are also making a joint bid.

Separate bids are expected from Stet International of Italy and from TeleDanmark, which is linking with British Telecom in an arrangement similar to that between TelSource and AT&T.

PTT Telecom and Swiss Telecom are partners in Unisource, the pan-European joint venture, with Telia of Sweden and Telefónica of Spain. Mr André Burg, president of TelSource, said SPT could form a relationship with Unisource in the long term. He said TelSource planned to make the Czech operator a telecommunications hub for central Europe if it won the stake.

Rudloff named chairman of E Europe packaging group

By Virginia Marsh in Budapest

Cofinec, a central European packaging group owned by western institutional investors, has appointed Mr Hans-Jörg Rudloff, former chairman of Credit Suisse First Boston, as group chairman.

The group also announced yesterday it is to invest US$25m in a packaging manufacturing plant in Poland.

Mr Stephen Frater, chief executive, said financing for the project, the group's first in Poland, would come from a just-completed capital increase of FFr210m ($40.9m).

This had doubled the company's capital base and brought in new shareholders.

These include Mr Rudloff; CSFB's Central European Growth Fund; the European Bank for Reconstruction and Development; and Baring Global Emerging Markets Fund and Baring Chrysalis Fund, both managed by Baring Investment Management.

Hans-Jörg Rudloff: one of the new shareholders at Cofinec

Cofinec, which had turnover of around $120m in 1994, up from $88m in 1993, was set up in 1989 by Cerus, a French holding company and the vehicle for the non-Italian business interests of Mr Carlo De Benedetti, the Italian industrialist.

Other Cofinec shareholders include Banque Nationale de Paris, Union des Assurances de Paris and Lehman Brothers.

Mr Frater said the Polish plant, due to be operational by the end of the year, would lift the company's investment in central Europe to $125m, and the number of employees to 1,700. It will produce packaging primarily for consumer products, food, tobacco and pharmaceutical companies.

The plant will be located near Warsaw, and be Cofinec's fourth such factory in the region. The group runs two packaging companies in Hungary and one in the Czech Republic – all formerly state-owned. It hopes to set up a fifth manufacturing base in western Romania within the next two years.

Around 70 per cent of production is exported, either directly or by clients which include PepsiCo, McDonald's, Unilever and Philip Morris.

Securities losses hamper Den Danske Bank

By Hilary Barnes in Copenhagen

Den Danske Bank, Denmark's largest commercial bank with assets of DKr338bn ($58.2m), has posted net profit of DKr818m in 1994, down from 1993's DKr2.40bn but ahead of market expectations.

The fall was blamed on unrealised losses of DKr3.42bn on the securities portfolio, compared with unrealised gains in 1993 of DKr4.19bn. Under Danish law, these are entered fully into the profit and loss account.

The bank will pay an unchanged dividend of DKr12.

It said its core banking profits – profits before unrealised gains or losses and extraordinary items – rose to DKr2.62bn from DKr1.98bn in 1993. This was the fourth consecutive year of improvement in core profits, said Mr Knud Sorensen, chief executive. However core profit, at 22.4 per cent of equity capital, was, he said, still not satisfactory.

Staffing has been cut by 18.4 per cent since 1992, to 12,033, and a DKr285m extraordinary charge was made to cover a new round of voluntary redundancies.

The main improvement in core profits was attributed to a reduction in bad-loss provisions, to DKr1.87bn from DKr2.83bn, while expenses fell by DKr169m to DKr5.84bn.

Danske was cautious on the 1995 outlook, predicting a recovery in lending activity as the economy improved, but warning that profits would be restrained by tough competition.

The bank last year acquired control of the Baltica insurance group, which is not consolidated into the accounts.

Danske is discussing the sale of most of Baltica's general insurance operations, which have premium income of DKr3.6bn, while retaining control of Danica, Baltica's life assurance company, with premium income of DKr4.33bn.

Several Scandinavian companies are believed to be interested in acquiring Baltica, but yesterday Danske made no comment on the negotiations.

Special audit clears UBS

By Ian Rodger in Zurich

Union Bank of Switzerland, which is embroiled in a legal wrangle with its largest shareholder, said a special audit confirmed there were no irregularities in the bank's transactions in its own shares during a proxy battle last autumn.

UBS said its external auditors, ATAG Ernst & Young, were involved in the process.

BK Vision, an investment company controlled by Mr Martin Ebner's BZ banking group, has charged that UBS acted improperly in buying some of its shares.

Iberian banks in cross-border deal

By Tom Burns in Madrid

Nearly 100 bank branches in Spain and Portugal are to change ownership and nationality under an agreement, valued at Pta20bn ($155m), between Spain's government-controlled Argentaria banking corporation and Caixa Geral de Depositos, the state-owned Portuguese savings bank. The aim is to foster cross-border financial expansion.

The swap, likely to be signed next week, involves Caixa of Banco Siméon buying a 60-branch Argentaria subsidiary based in the north-western region of Galicia, and Caixa transferring to the Spanish group 33 of its offices in Portugal. Broad details of the deal were accepted by both sides last September, but implementation was held up by the Lisbon authorities. They disputed a 50 per cent stake in Banco Totta e Açores (BTA) held by Banco Español de Crédito (Banesto).

The sale last month of Banesto's holding in BTA to Portuguese financier Mr Antonio Champalimaud re-established the banking relationship between the two countries.

The Caixa already has a solid base in Spain. It owns Banco Extremadura, which has a 50-branch network based in the western region of Extremadura, and Banco Luso Español, which has 40 offices and its headquarters in Madrid.

The Caixa, Portugal's leading financial institution, is seeking to build up its Spanish presence to 200 branches.

Argentaria operates 18 offices in Portugal through its Banco Exterior unit, and aims to have a 150-unit Portuguese network within the next two years. It will secure 30 offices in prime urban areas from the Caixa subsidiary Banco Nacional Ultramarino and a further three from the Caixa itself.

SKF chief executive to step down in April

By Christopher Brown-Humes in Stockholm

Mr Mauritz Sahlin is stepping down as chief executive of SKF after 10 years at the helm of the world's leading maker of roller bearings.

He will be replaced by Mr Peter Augustsson, SKF's senior vice-president in charge of European operations, at the end of April.

Mr Augustsson, 40, joined SKF last year after 16 years at Volvo, Sweden's flagship car manufacturer. When he left Volvo he was a senior vice-president with special responsibility for the group's highly successful 850 series.

Mr Sahlin, 60, leaves SKF when its fortunes are rapidly improving after three difficult and turbulent years. The group yesterday confirmed a SKr1.82bn ($250m) profit for 1994, after a SKr669m loss in 1993, and proposed a dividend of SKr4.25 a share, after suspending payments in 1992 and 1993.

The turnround was driven by a 14 per cent rise in volumes on the back of higher demand, particularly from car and truck manufacturers.

This helped to boost sales to SKr33.27bn from SKr29.2bn.

The company also benefited from cost-cutting and a return to profit at Ovako Steel, its special steels unit.

SKF expects even better figures this year, helped by continued strong demand in its main US and European markets and higher prices.

Austrian unit helps lift Strabag turnover 19%

By Michael Lindemann in Bonn

Strabag, Germany's fifth biggest construction company, saw turnover rise 19 per cent last year to DM6bn ($4bn), helped by strong results from its Austrian subsidiary which is building the new Vienna-Budapest motorway.

Presenting preliminary figures, the company said it had improved on its 1993 profits of DM40m and would pay a "good" dividend.

The company will increasingly focus on central and eastern Europe, where it expects real annual growth of at least 4 per cent.

However, it still expects 75 per cent of its turnover to be in Germany, much of it in the eastern part of the country.

New orders last year rose 8 per cent to DM5.8bn, up from DM5.4bn, while orders on hand fell 4 per cent to DM3.2bn.

- Henkel, the privately-owned chemicals company, reported a 20 per cent rise in 1994 profits to DM460m, up from DM385m the year before.

Turnover rose by 1 per cent to DM14.1bn while foreign sales advanced 2 per cent to DM9.1bn.

Sales of detergents, which represent 29 per cent of group turnover, fell 5 per cent because of strong competition and exchange rate fluctuations. Cosmetics, which make up about 10 per cent of overall turnover, only just reached their 1993 sales levels because of strong competition and stagnant consumer demand.

NEWS DIGEST

Toronto-Dominion Bank has strong opening period

Toronto-Dominion Bank opened the Canadian banks' quarterly reporting season yesterday with a 6.5 per cent rise in first-quarter earnings, writes Bernard Simon in Toronto.

Net income climbed to C$179m (US$127.8m), or 56 cents a share, in the three months to January 31 from C$168m, or 52 cents, a year earlier.

The improvement was due largely to a near-halving in loan-loss provisions to C$60m from C$113m. Fee income rose by 7 per cent, with the increase coming mostly from credit fees and credit cards. But net interest income fell by almost 9 per cent, reflecting a sharp narrowing of margins in the wake of higher interest rates.

● National Bank, Canada's sixth biggest, posted net profit of C$60.6m or 32 cents a share, for the first quarter of fiscal 1995, up 20 per cent from $50.6m or 27 cents a year earlier, adds Robert Gibbens. Return on average assets edged up to 0.52 per cent from 0.47 per cent.

Loan loss provision was down 10 per cent. Net interest income rose 7 per cent with higher loan and deposit volumes. A drop in brokerage income was partly offset by higher fee, credit card and exchange revenues.

Fairfax teams with Cox in pay-TV venture

The Australian Broadcasting Corporation is teaming with John Fairfax, the newspaper publisher, and Cox Communications, one of the largest US cable companies, in a A$100m (US$73.7m) joint venture to develop two new pay-TV channels in Australia, writes Nikki Tait in Sydney.

The joint venture, Australian Information Media, will be controlled by the ABC with a 51 per cent stake, and the three partners are to supply combined funding of some A$100m over three years. The new joint venture company is expected to link with Turner International, which distributes Turner Broadcasting's Cable News Network, to produce a 24-hour news channel.

A second channel will provide children's programming during the day, and a mix of drama, documentaries and general entertainment in the evening.

Portuguese Marconi valued at Es101.4bn

Portugal yesterday fixed a value of Es6,500 a share for Companhia Portuguesa de Rádio Marconi, an intercontinental telecommunications operator, prior to its merger with state-owned Portugal Telecom, writes Peter Wise in Lisbon.

The price values the company at Es101.4bn ($661.3m).

Private shareholders in Marconi, which is 51 per cent state-owned, will be encouraged to exchange their shares for shares in PT when 25 per cent of the utility is privatised in a global offer in May. The offer price for PT has not yet been fixed.

Marconi shares rose Es300 to Es5,800 yesterday before they suspended shortly before trading closed. They had risen from Es4,502 since January 27.

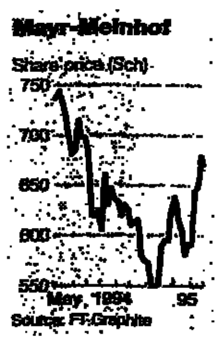
The state's holding in Marconi is to be transferred to PT in April at a nominal value of Es1,000 a share.

Bank of Cyprus improves by 18%

Bank of Cyprus, the island's biggest bank, posted net profits of C£17.2m ($34.4m) last year, an 18 per cent improvement on the previous year, writes Kerin Hope in Athens.

The bank said its branch networks in Greece and the UK made an unexpectedly strong contributon to earnings. The Greek network reported operating profits of C£5.5m, a 65 per cent increase over 1993, while the UK network, which mainly serves Greek Cypriot businessmen, raised operating profits to C£2.5m, a 40 per cent gain. Reserves rose by 50 per cent to C£59m at the end of 1994, as a result of an asset revaluation and income from its insurance subsidiary, Eurolife.

Austrian paper group boosts income 53%



Mayr-Melnhof Karton, the Austrian board, packaging and paper group that came to the Vienna bourse last April, has reported a 53 per cent jump in 1994 consolidated net income to Sch179m ($17.3m), writes Ian Rodger in Zurich. The result is significantly higher than the Sch140m forecast at the interim stage, and may repair some of the damage done to the group's image when it revised down its earnings estimate shortly after its flotation. In a preliminary statement, the directors attributed the earnings surge in part to the 25.6 per cent rise in sales to Sch10.6bn, and partly to acquisitions in the folding carton and waste paper division.

Tough times for Canada's brokers

Canadian stock brokerage profits slumped late in 1994 and nearly one-third of the total 158 firms showed losses for the full year, writes Robert Gibbens. Industry operating profit overall dropped to C$1.2bn (US$875m) in 1994 from $1.7bn in 1993, and final profit after bonuses was $421m against $726m, said the Investment Dealers' Association of Canada.

The poor second-half showing was due to rising interest rates and poor equity markets, and a dearth of new stock issues. The industry had a banner year in 1993 with climbing stock markets and a surge in initial public offerings.

Constantia sales increase 16%

Constantia, the Austrian packaging and board group, said in a preliminary statement that its cash flow jumped 30 per cent in 1994 to Sch1.2bn ($1.16m), thanks to higher sales and acquisitions, writes Ian Rodger. Sales advanced 16 per cent to Sch13.5bn, with the Iso board subsidiaries prospering in materials for building and for sporting equipment.

The group also said it had agreed to buy a majority stake in Falco Spanplattenwerk, a leading Hungarian chipboard maker with annual sales of Sch500m.

Gencor dismisses tax fraud allegations

Gencor, the South African mining house, said auditor investigations had revealed no tax fraud at the company, as alleged by now dismissed senior executive Mr Trevor Rees, reports Reuter from Johannesburg.

The company said Mr Rees had not appealed against his summary dismissal, and it had been implemented. Gencor said Mr Rees attempted to secure R2m ($522,000) from the company in return for his agreement not to disclose confidential and "potentially damaging" information.

AIG lifts income 12% to record $2.7bn

By Tony Jackson in New York

American International Group, the US insurance company, lifted fourth-quarter net income 18 per cent to $578m, and yearly income 12 per cent to a record $2.2bn.

Mr Maurice Greenberg, chairman, said premiums in domestic property and casualty were up 12 per cent for the year, while rates had been relatively flat in the quarter. The overseas property and casualty business had produced an "outstanding" quarter and year, he said.

Pre-tax profits from general insurance overall were up 17 per cent in the year at $1.58bn. Profits from life insurance rose 19 per cent to $866m. Profits in financial services were 3 per cent up at $405m, in spite of a drop from $106m to $90m in the last quarter.

The previously-published estimate of a $50m loss from the Kobe earthquake was unchanged, Mr Greenberg said. Devaluation of the Mexican peso had no material impact on the company.

Realised capital gains were down from $107m before tax for the year to $87m.

Excluding capital gains and the effect of accounting changes, net income was up 15 per cent in the year at $2.1bn, or $6.69 a share. For the quarter, earnings also rose 15 per cent to $571m, or $1.81, on the same basis.

Videotron's UK unit to raise C$220m in IPO

By Robert Gibbens in Montreal

Videotron, Canada's second-biggest cable-TV group, said that an initial public offering by its UK subsidiary would be priced in April and should raise about C$220m (US$157m).

Videotron and partner BCE will see their interests in Videotron Holdings decline to 56 per cent and 25 per cent respectively, said Mr Andre Chagnon, founder-chairman of the Videotron group.

Proceeds will go partly to redeem the UK subsidiary's preferred stock, providing C$75m cash to the parent.

Mr Chagnon said the parent would also show a substantial special gain on dilution from the IPO.

The new shares will be offered primarily in the UK, but also in North America.

The IPO would set a value on the UK operation and provide a more realistic market valuation of the parent's stock in Canada, Mr Chagnon added.

American Maize agrees Eridania offer

By Laurie Morse in Chicago

The directors of Connecticut-based American Maize Products have agreed to an offer by Eridania Béghin-Say, the French food subsidiary of Montedison of Italy. Although the board agreed the deal, valued at $408m, Mr William Ziegler, American Maize's chairman and a controlling shareholder, is seeking an injunction to stop the merger.

If the merger is completed, it will give Eridania a 10 per cent share of the American corn sweetener market. High fructose corn syrup is the primary sweetener used in colas and other soft drinks in the US, where demand has been growing 4 per cent annually, although it is not widely used in Europe.

Analysts said Eridania's interest in American Maize is similar to the strategy that prompted UK-based Tate & Lyle to acquired A.E. Staley, a big US corn refiner and corn sweetener producer, in 1987. "It helps to be able to source and sell these kinds of products worldwide," said Mr Dick Elam, an analyst with Kemper Securities.

Eridania's bid of $40 a share is an improvement on last year's initial offer of $32. Eridania raised its bid twice: first to $37 and, after being rebuffed by Mr Ziegler, to $40. American Maize's share price rose $2¾ to $38¾ at lunchtime.

The offer is contingent on a number of conditions, including a provision that Eridania obtain control of a majority of shares in each class of American Maize's stock. Although American Maize is publicly traded, 70 per cent of its shares are owned by two families, which reportedly are feuding. Mr Ziegler owns 55 per cent of the company's Class B shares, which have greater voting power than Class A shares and which control three quarters of the board's seats.

Mr Ziegler's lawsuit, American Maize said, contends that theboard wrongfully approved the merger and stock purchase agreement, and that other aspects of the deal are not legal.

Two US retailers show falls

By Richard Tomkins in New York

J.C. Penney and Spiegel, two big US retailers running catalogue businesses as well as stores, saw their share prices slip against a rising stock market yesterday as they reported disappointing fourth-quarter performances.

J.C. Penney saw net income fall to $428m from $437m in what it described as "a difficult quarter for the retail industry". Its shares were down $1 at $42⅞ at midday.

Sales rose by 5 per cent to $6.6bn and operating profits by 5 per cent to $665m, but net profits were held back by higher interest charges caused partly by stock repurchases. Earnings per share rose to $1.66 from $1.64.

For the full year, net income rose by 12 per cent to $1.06bn.

Like other retailers with a strong bias towards apparel sales, J.C. Penney appeared to have suffered partly from the fourth quarter's unseasonably warm weather, which held back winter clothing sales, and partly from a trend among consumers to shift their Christmas spending towards home electronics.

The catalogue business, faced with the task of overtaking the comparable quarter's 23 per cent increase in sales, pushed up revenues by only 1.3 per cent. The stores did better, increasing sales by 5.7 per cent.

At Spiegel, fourth-quarter net profits slumped to $9.3m from $55.8m, and full-year net income fell to $25.1m from $48.7m.

Its shares were down $⅝ at $10 at midday.

The company said poor demand for winter clothing was partly to blame. In addition, it spent heavily to increase the distribution of its catalogues without getting a matching increase in customer orders.

Mr John Shea, chief executive, said the company was studying ways of reducing the impact of rising postage and paper costs – for example, by reducing the weight of paper and the pagination of its catalogues.

Horsham has deficit in final quarter

By Bernard Simon in Toronto

Horsham, the investment holding company controlled by Canadian entrepreneur Mr Peter Munk, benefited handsomely last year from a one-time gain stemming from an acquisition by Barrick Gold, the gold producer in which Horsham is the largest shareholder.

But Horsham incurred a fourth-quarter loss due to narrowing oil refining margins at Clark USA, its wholly-owned oil refiner and distributor.

Earnings for the year were US$178.7m, or $1.68 a share, up from $39.3m, or 39 cents, in 1993. Revenues rose 9.8 per cent to $2.49bn.

More than three-quarters of net earnings came from a $136m dilution gain accruing to Horsham from shares issued by Barrick for its takeover last summer of Toronto-based Lac Minerals.

The loss for the quarter ended December 31 was $8.8m, or 8 cents a share, compared with a $3.4m profit, or 3 cents, a year earlier. Clark's loss for the quarter was $13.4m, versus an $11.9m loss a year earlier.

Horsham's interests also include a 48 per cent stake in Trizec, one of North America's biggest property developers, and a German company which is developing a business park on the outskirts of Berlin.

Kemper loses three managers

By Maggie Urry in New York

Kemper, the financial services group which spent much of last year on the receiving end of takeover bids, has lost three of its top fund management executives.

The three are Mr Charles Kierscht, who was chairman and chief executive of Kemper Financial Services and a main board director; Mr Sandy Lincoln, who was chief investment officer; and Mr Robert Jackson, senior executive vice-president of Kemper Financial.

As a result, Mr Stephen Timbers, chief operating officer of the group, is taking over Mr Kierscht's role and, on a temporary basis, Mr Lincoln's job. Kemper said a search was under way for a new chief investment officer. The three resignations follow last week's appointment of Mr Jack Neal as chief operating officer of Kemper Financial.

Kemper was first bid for last spring by GE Capital, the financial services arm of General Electric, but then agreed a higher offer worth $3.3bn from Conseco, the insurance group. But in November Conseco reduced its offer and then pulled out of the deal, and Kemper's share price tumbled. Kemper indicated it was still up for sale, but so far no suitors have made a firm offer.

Since then there have been rumours that key staff were looking to leave the group. Mr Timbers said: "We have a strong management team in place at Kemper Financial. We are setting Kemper Financial on an aggressive course for future growth."

Berlin's office builders think big

The scale of development in the city is impressive, says Simon London

Berlin is the perfect antidote to the caution of London or the uncertainty of Paris. Office rents may have fallen by 50 per cent since the peak in 1991, but that has not dissuaded developers from rebuilding the eastern half of the city and much more besides.

For those accustomed to the recessionary shadow elsewhere in Europe, the scale of development is at first difficult to grasp.

As one agent remarked, Berlin thinks in metres as London thinks in feet: in other words, the development projects are ten times the size.

Developments of less than 50,000 sq metres are barely worth a mention in Berlin, whereas London cannot boast a single urban project on this scale. The bigger projects are breathtaking, such as the 1m sq m mixed-use development planned for vacant land at Potsdamer Platz, or the 300,000 sq m of offices being built in Friedrichstrasse, the main thoroughfare of the Mitte district of east Berlin.

In most cities the pace of development, against a background of falling rents, would reduce developers, agents and bankers to nervous wrecks. Yet Berlin's property community still hopes that the tidal wave of new space will not leave a trail of financial havoc.

There are two reasons for qualified optimism. First, Berlin is significantly underendowed with office space compared to most other German cities.

Mr Jürgen Bruns-Berentelg of Healy & Baker, the surveyors, points out that only 31 per cent of Berlin's population work in service industries, against 42 per cent in Hamburg and more than 50 per cent in Frankfurt. As the city makes the transition to a service-based economy, the argument runs, new offices will be required. Second, the Federal Government's migration from Bonn to Berlin is expected to create a surge in demand for office space.

The snag with the first argument, as Mr Bruns-Berentelg concedes, is that Berlin is geographically disadvantaged compared to Hamburg or Frankfurt. Its position close to the Polish border, with relatively poor transport connections, helps explain why only three of Germany's top 500 companies have their headquarters in the city – a pattern that is unlikely to change.

While the second argument has more merit, the government will not help developers directly. Most ministries will occupy purpose-built, government-owned blocks.

Private sector organisations involved in oiling the wheels of government will be attracted to Berlin. As a result the annual take-up of office space is expected to rise by 25 per cent to about 250,000 sq m.

But it still takes a leap of faith to believe that enough demand will be created to fill Berlin's 160 new office developments at rents which allow the developers to show a return on the investment.

For less well-located office development away from he city centre, the over-supply of space is already hurting. A consortium of banks recently assumed control of the 50,000 sq m Airport Bureau Centre, near Tegel airport, which remains unlet. Wetherall Green & Smith, the surveyors, have been instructed to let large units at DM19.50 ($13.28) a sq m, against the previous asking price of DM35.

Exactly where rents will settle for the very best space – such as developments around Friedrichstrasse – is still an open question. Most of the buildings are only now nearing completion and competing for tenants. Prime office rents have already fallen from about DM85 per sq m per month in 1991, to between DM45 and DM50 today.

Agents and developers hope that the quality of the new buildings and the attraction of the location will push rents in the Mitte back towards the 1991 peak. At this level most developers would show a clear profit. Only those which paid too much for sites in the first euphoric days after reunification would be left nursing wounds.

At rents of between DM50 and DM60, many of the ambitious new buildings would not be economic. Rumours that the first big tenant of one notable Friedrichstrasse development is paying an initial rent of only DM39 (albeit rising to DM75 over five years) are therefore worrying.

The large retail portions of the Mitte scheme may also prove difficult to let at good rents.

The Mitte may achieve its ambition of becoming Berlin's international business district, but it faces stiffer competition as a shopping location.

Mr Sacha Hetrich of Jones Lang Wootton, the surveyors, argues that over-supply of offices and shops will lead tenants to focus on the very best locations. Quality office development in the Mitte will attract tenants, but those away from the centre – especially those built on former industrial sites in the suburbs – will remain empty.

The experience of London in the late 1980s supports this view. The Broadgate development in the City of London (which is roughly the same size as the combined Mitte schemes) found tenants. But less well located projects – including Canary Wharf – are only now being filled.

The uncomfortable thought for the Mitte developers, though, is that Broadgate commanded far lower rents than its developers Rosehaugh and Stanhope anticipated. Shareholders saw almost no return on their investment, since Rosehaugh fell into receivership and Stanhope is now being rescued from the brink.

It is unlikely that Berlin will see a similar wave of receiverships and forced sales of developments. Most big projects are being financed by small circles of banks which are both lenders and equity partners. As such they have a strong incentive to take a long-term view.

Neither are problems in Berlin likely to lead to systemic weaknesses in the financial system. Even if many Berlin developments prove unprofitable, the rest of Germany's property market is recovering.

This points to an orderly work-out of any problems which do arise. The fall-out from the Berlin development rush is unlikely to be seen in public.

But the financial pain could be no less real. The next few months are critical as some of the bigger projects reach completion and tenants are sought. The terms of each letting will determine whether the monumental rebuilding of Berlin has made financial sense.

Renison launches bid for Pancontinental

By Nikki Tait in Sydney

Renison Goldfields, the Australian mining house in which the international conglomerate Hanson has a 39.6 per cent stake, yesterday made a hostile offer, said to be worth A$440m (US$323m), for Sydney-based Pancontinental Mining (Pancon).

The offer, which was firmly rejected by Pancon, was announced as Renison said it planned to spin off its gold mining assets into a new separately-listed company, Goldfields. The proceeds would be used to mount the offer, with a mix of cash and Goldfields shares.

Renison wants to combine Pancon's gold mining operations with the Goldfields assets, while paring away the non-gold mining assets – which take in magnesite, zinc and coal – for consolidation within Renison itself. That would leave Goldfields owning Renison's 25 per cent in the Porgera gold mine in Papua New Guinea, along with Pancon interests in Western Australia, Tasmania and PNG.

Renison said Goldfields would become one of Australia's five biggest gold producers.

However, Pancon, said the offer was inadequate, highly conditional and formed part of an "unusually complex" restructuring of Renison.

This week has seen heavy buying of Pancon shares. Renison said yesterday that Goldfields held 14.9 per cent of its target's shares.

Renison said the logic behind the takeover was that "pure" gold mining stocks tend to be valued more highly by the stock market than diversified mining groups, and that this premium could be realised by by pooling the two companies' assets into a separate vehicle.

Goldfields is offering one Goldfields share and A$2.10 in cash for every three Pancon shares. This is said to value each Pancon share at A$1.80, and the group at A$440m.

Renison shareholders are also being offered the chance to invest directly in Goldfields. They will be able to buy converting letter-of-credit-backed unsecured notes at a price of A$3.30, on the basis of 58 notes for every 250 Renison shares held.

These notes will then convert on a one-for-one basis into Goldfields shares if the offer for Pancon is successful. If the bid fails, the notes will be redeemed after six months, for A$3.63 each.

The issue will raise about A$156m. Hanson has said that it will take up the offer in respect of its own entitlement, at a cost of A$62m, and retain its Goldfields stake thereafter.

If the bid then secured 100 per cent acceptances, Goldfields would be owned 54 per cent by Renison, 28 per cent by Pancon shareholders, and 19 per cent by Renison shareholders. Hanson's stake would be more than 10 per cent.

The offer is conditional on a 90 per cent minimum acceptance level, and approval from the Foreign Investment Review Board.

The bid is the most significant move by Renison since Mr Tony Cotton was brought in to sort out the lacklustre mining house.

Even before Pancon directors issued their rejection, the deal had been given a poor response on the Australian stock market, where Pancon shares, buoyed recently by bid hopes, fell 14 cents to A$1.65, and Renison lost 30 cents to A$4.10.

The fall came in spite of interim results from Renison yesterday which showed an after-tax profit of A$20.8m in the six months to end-December, compared with a loss of A$15.3m a year earlier.

Pancon's interim figures, issued earlier this month, showed profits of A$8.5m after tax, a threefold increase over the year-earlier level.

Corporate Japan shakes in after-shock of quake

Some companies' losses from the Kobe tragedy may prove competitors' gains, writes William Dawkins

Just over 100 listed Japanese companies have reported earthquake damage worth a total Y1,005bn ($10.4bn), enough to make a sizeable dent in profits this year and next.

The estimate, compiled by the Nihon Keizai Shimbun newspaper from company reports and stock exchange announcements since the Kobe quake struck just over a month ago, may well be an underestimate, securities analysts warned.

However, it gives the best indication yet of the scale of the damage suffered by corporate Japan, to be outlined in more detail in mid-May, when companies report annual results.

The corporate cost of Kobe will not be charged against profits in a single year. It includes short-term costs, such as the the temporary loss in sales, as well as long-term ones such as the cost of rebuilding. Moreover, some Kobe companies' losses will be competitors' gains.

In the short term, the retailing sector is the worst hit by the destruction of stores and stocks in Kobe.

The 60 supermarkets damaged in Kobe lost Y300bn, excluding reconstruction, according to the Japan Chain Stores Association. Ten department stores there lost Y100bn of sales and stocks, says their trade body, the Japan Department Stores Association.

There was also a nationwide decline in consumer spending in the weeks after the quake, for which equity analysts offer conflicting explanations, from panic to mourning.

Retail store shares have on average underperformed a dismal stock market by 7.1 per cent since the turn of the year, with the worst hit being those with a large presence in Kobe – Daiei and Daimaru.

Whatever the reason for the nationwide retail sales blip, a recent upturn in sales of durable goods indicates that consumers may be putting Kobe behind them, say analysts. Japan's retailers are "rattled but oversold," argues Ms Victoria Melendez, equity analyst at Morgan Stanley Japan.

Others to have lost sales because of the quake include Kobe Steel, one of Japan's leading producers, where annual production is running 580,000 tonnes below normal, a situation likely to last until September, says the company.

Toyota, Japan's largest carmaker, this week said January production fell "sharply" for the first time in six months, after it closed its main assembly lines for one and a half days in January because of feared parts shortages.

Steel and cars, however, suffered only localised damage and did not experience the post-Kobe nationwide sales decline reported by retailers. Instead, the lost sales of Kobe Steel and Toyota have provided extra business for competitors, at a time when both sectors are burdened by surplus capacity.

That explains, for example, why the share price of Nippon Steel, Japan's largest steelmaker, has outperformed the market by 5.5 per cent so far this year, and why Nissan, Japan's second largest car group after Toyota, reported a boost in January sales.

Overall, the short-term loss of business will probably remove about Y100bn from the Y4,000bn net profits of companies listed on the main Tokyo stock exchange in the year to March, estimates Mr Tom Hill, equity strategist at S.G. Warburg Securities. That is insignificant in comparison to the Y280bn pre-tax loss to be announced by Sumitomo Bank, which perhaps puts the short-term corporate cost of the earthquake in its correct scale.

Long term, corporate Japan's potential losses are on a larger scale; about Y500bn, estimates S.G. Warburg. Yet that is still only a fraction of the government's estimated overall cost of Y9,600bn, including damage to roads, harbours, rail and buildings, most of which will be borne by the public sector.

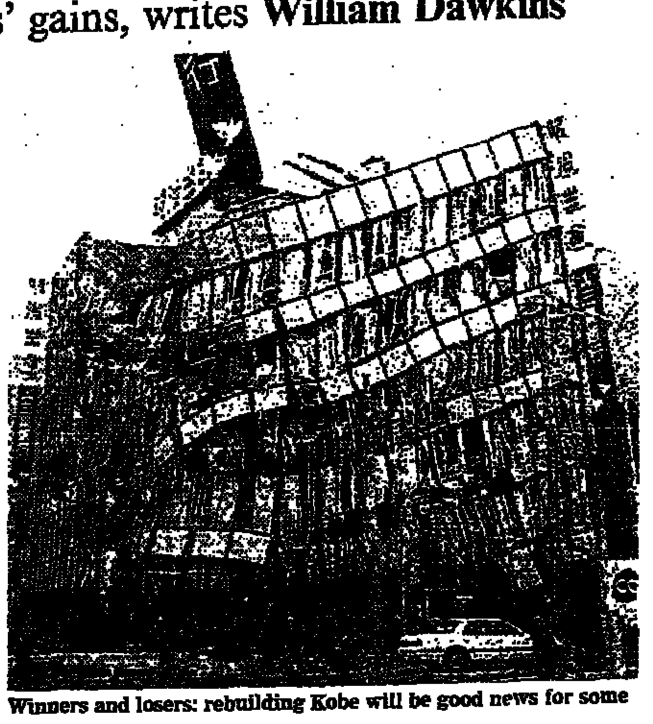
The first injection of post-Kobe public spending, Y3,000bn, is awaiting parliamentary approval. The rest is on hold ahead of more detailed damage estimates from the government's assessors.

Kobe Steel and local retailers will again bear the lion's share of the corporate rebuilding cost. The steel group alone has earmarked Y74bn to repair its plant there, while Daiei puts the bill at Y50bn, including Y18bn of lost stocks. Hanshin Electric Railway, the listed operator of a commuter line crippled in the quake, estimates its repair bill at about Y70bn, of which the government will pay half.

Equally, rebuilding Kobe will be good news for some. Steel companies, for example, can expect a Kobe-related 3m tonne rise in domestic annual demand over the next two years, Mr Hiroshi Saito, chairman of the Japan Iron and Steel Federation, said yesterday. That would lift domestic steel consumption from 102m tonnes in the current year to March, to 105m tonnes next year, he said.

Construction companies, which were struggling against the continuing slide of the property market, can hardly believe their luck.

Their shares started to rise the moment the market opened after the Kobe quake. They have hardly stopped since, outperforming the market so far this year by 17 per cent; the biggest potential winners from Kobe's tragedy.



Winners and losers: rebuilding Kobe will be good news for some

Thailand's commercial banks solid

By William Barnes in Bangkok

Thailand's commercial banks continue to report robust profits in the face of widespread fears that their earnings would turn down in the face of fierce domestic and international competition.

The country's biggest bank, Bangkok Bank, this week reported a 25 per cent rise in full-year 1994 net profits to Bt17.36bn ($695m), slightly better than expected by analysts, compared with Bt13.9bn a year ago.

Siam Commercial Bank reported a 28 per cent increase in 1994 net profits to Bt6.2bn; Thai Farmers Bank saw its net profits rise 31.2 per cent to Bt10.42bn; and Thai Military Bank announced a 24.6 per cent jump in net profits to Bt3.5bn.

Bangkok Bank's net loans grew a modest 12.7 per cent to Bt746bn and its deposits rose 11.2 per cent to Bt657bn, compared with industry averages of about 20 per cent and 14 per cent respectively.

Broker Smith New Court Far East said it was sticking to its forecast of 1995 net earnings of Bt20.7bn giving a prospective price-earnings multiple of 8.7 times.

Mayne Nickless progresses

By Nikki Tait

Mayne Nickless, the Australian transportation, security services and healthcare group which also holds a 25 per cent stake in Optus, the country's second telecommunications group, yesterday announced profits after tax and abnormals in the half-year to January 1 of A$73.4m (US$54.1m), up from A$34.5m a year ago.

The 1993-94 result, however, was depressed by a A$27.2m abnormal charge, while the tax charge was also slightly lower in the latest six months. At the pre-tax level, Mayne's improvement was much more modest: an 8.8 per cent rise to A$103.6m. Sales rose by 3.1 per cent, to A$1.48bn.

At the pre-interest level, the biggest advance was in transport services, where profits rose from A$41.7m to A$46.8m in spite of the estimated A$2m cost of recent industrial action by transport workers. Security services made a modest advance, from A$28.5m to $29.1m. Healthcare services were flat at A$24.9m.

The company's share of losses from Optus was A$6.8m, and directors said that they did not expect the company to break even this financial year. However, they indicated that Mayne would be ready to invest further in Optus, and its Optus Vision consortium which is building a cable network.

Mr Bill Bytheway, managing director, said that existing shareholders in Optus were likely to make further equity contributions and that Mayne's contribution could reach A$200m.

Mayne shares closed 4 cents lower at A$6.11.

● AIDC, the Australian-listed finance and investment house in which the federal government holds an 80.6 per cent stake, said yesterday that it hoped to make "a positive announcement" on the pending sale of that stake shortly.

The news came as AIDC announced a fall in after-tax profits in the six months to end-December from A$20.6m a year ago, to A$15.5m.

It said it was satisfied with the figures.

Taiwanese chip group in T$30bn investment

By Laura Tyson in Taipei and Paul Taylor in London

Taiwan Semiconductor Manufacturing (TSMC), the country's largest semiconductor manufacturer, plans to invest T$30bn (US$1.14bn) in a new semiconductor plant.

TSMC, in which Philips, the Dutch electronics group, holds a 38 per cent stake, was listed on the Taiwan stock exchange in September.

Construction of the plant, which will produce eight-inch silicon wafers, is subject to shareholder approval. It is expected to begin late next month.

As a foundry, TSMC produces a variety of semiconductors, including dynamic access random memory (D-Ram) chips, for other high-technology companies. An estimated 61 per cent of TSMC's worldwide sales are in the US.

Taiwan Semiconductor's existing capacity is 90,000 wafers a month. The new plant will begin production of up to 30,000 wafers a month in mid-1997, depending on market conditions.

"They have the capital and the demand is certainly there," said Mr Daniel Heyler, regional director for Dataquest, which studies the semiconductor industry. "There's a worldwide shortage of semiconductor manufacturing capacity and that's why TSMC has done so well."

The market for D-Ram chips has been particularly strong recently. In the US, the market has doubled in the past three years.

In Asia, outside of Japan, the market has grown two-and-a-half times, while the European market is up 60 per cent.

Even in Japan, where the recovery has been weak, the market has grown about 18 per cent.

As a result, a number of semiconductor manufacturers have recently announced substantial investments.

Earlier this month, Mitsubishi said it planned to invest Y30bn ($303m) in its European semiconductor facility for production of advanced memory chips.

Tongaat-Hulett plans expansion

By Mark Suzman in Cape Town

Tongaat-Hulett, the South African food and industrial conglomerate, has announced plans for a R2.2bn ($574m) expansion of its aluminium and food processing divisions.

The group has in principle approved a R1.75bn addition to its Hulett Aluminium Rolled Products plant in Pietermaritzburg in Kwazulu-Natal province, and a R580m expansion to African Products, its starch and glucose division, outside Johannesburg.

Mr Cedric Savage, group managing director, said the projects would be in addition to existing capital expenditure plans in other divisions. "They will significantly enhance the medium to long-term earnings of the group," he said.

Subject to partnership agreements being finalised, Tongaat will take a 50 per cent stake in the aluminium project, which will be launched in conjunction with the state-run Industrial Development Corporation and Anglo American Industrial Corporation.

The plant will increase Hulett Aluminium's output to 150,000 tonnes a year from its current 50,000 tonnes while expanding overall capacity to 200,000 tonnes.

Under current plans, commissioning of the project should take place over 1997 and 1998.

Further advance for ABB in India

By Shiraz Sidhva in New Delhi

Asea Brown Boveri Limited, the Indian subsidiary of the global electrical engineering group, has reported another strong advance in net profits, rising to Rs507.8m ($16m) in 1994 from Rs306m a year earlier.

Sales climbed to Rs6.43bn from Rs4.72bn in the previous year.

The 1994 results include those at Flakt India, the Calcutta-based electrical engineering company which manufactures air pollution control systems. It was acquired by ABB last year and included in the accounts from October 5.

ABB, the parent company, which has already announced plans to invest $1bn in India in the next eight years, expects annual net income from Indian operations to exceed $3bn by the turn of the century.

ABB's main activities in India are in the power plant, power transmission and power distribution business.

It entered the low-voltage switchgear business last year, and manufactures rail transportation products for Indian Railways.

Other interests include pulp, paper, cement and caustic soda.

Unlikely alliance prompts concerns

Canadian unions sponsor venture capital funds, reports Bernard Simon

Merchant bankers and trade unionists make strange bedfellows, so it is not surprising that an investment vehicle which brings them together has stirred much controversy in Canada.

In the past year, 13 trade unions in Ontario, and several in other provinces, have signed up as "sponsors" of venture capital funds. The funds' assets are deployed by professional investment managers. Mutual fund distributors and brokerage firms with extensive retail networks handle promotion and sales to the public.

Among the newcomers is Sportfund, formed by the Canadian Football League Players Association to invest in small sports-related enterprises, including sports team franchises. An "advisory council" comprises some of Canada's best known ice hockey and baseball players, skiers and skaters.

The Canadian Police Association has joined forces with three investment advisers and Canadian International Mutual Funds, the 10th biggest mutual fund distributor, in a fund which plans to invest in fast-growing small businesses and corporate restructurings.

The funds are modelled on one set up by Quebec's Federation of Labour 11 years ago. The fund, Fonds de Solidarité des Travailleurs du Quebec, has assets of C$923m (US$659m). It made a profit of C$21.4m last year including, for the first time, a contribution from its venture capital investments.

The latest deals have largely been spurred by generous tax incentives from the federal government and several provinces. In Ontario, for example, taxpayers investing up to C$5,000 in a labour-sponsored venture capital fund through a tax-sheltered retirement savings plan can reduce their taxable income by as much as C$4,660. The funds' promoters aim to persuade investors that even if the entire C$5,000 is squandered, the actual loss could be as little as C$340.

The idea behind the funds is that they offer small investors an opportunity to share in the rewards – and risks – of the fast-growing small business sector.

According to Mr Bill Holland, senior vice-president at CI Mutual Funds, the small business sector's performance shows little correlation with listed securities. An investment in a venture capital fund is therefore a good way to diversify a portfolio, he says.

Similarly, merchant banks have been attracted by the opportunity to diversify at a time when their traditional institutional business is slack.

The unions' involvement is designed to give organised labour a window on a sector of the economy which is creating jobs faster than any other. Tangible benefits to union sponsors include a commission – which in the case of the police union adds up to about C$90,000 a year – and fees for union leaders appointed to a fund's board of directors.

However, allegations have surfaced of "rent-a-union" tactics by over-zealous merchant bankers. "That's not something we had anticipated," said one Ontario government official.

Ontario's social democrat government, which relies heavily on trade union support, has come under fire for providing a five-year, interest-free loan to cover the start-up and operating costs of the latest fund.

Several other criticisms are being levelled at the funds. Top of the list is the concern that the lure of the generous tax deduction is blinding investors to the risks. "This is not your normal mutual fund, yet it is being sold as one," says Mr Steve Stacey, a mutual funds analyst at Nesbitt Burns in Toronto.

In addition to the high risks associated with small business, investors must leave their money in the funds for at least five years to qualify for the full tax benefits. The funds are obliged to provide for redemptions by holding at least 20 per cent of their assets in liquid securities.

Mr Stacey is concerned that some may be unable to pay out to investors if governments suddenly cut off the tax incentives and cash inflows dwindle.

A question mark also hangs over the funds' ability to find suitable investments. Working Ventures Canadian Fund, which pioneered labour-sponsored funds outside Quebec, has pulled in C$300m since it was set up five years ago. But to date it has invested less than C$70m.

Mr Bruce Cohen, a personal finance writer at Toronto's Financial Post newspaper, calculates that an investment in a Canadian equity mutual fund would have provided a higher return than the Working Ventures fund, including the tax benefits.

Some funds' performance is also expected to be dampened by unusually high fees paid to investment advisers, sales people and union sponsors.

Nervousness about the funds' long-term viability has grown as new entrants have saturated the market. The Ontario government official says, however, that "we've got to sit back and watch a little bit to see how they perform before we think of reining them in".

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British Gas turns in £1.24bn

By Robert Corzine and Kevin Brown

British Gas, under fire for falling service levels and rising executive salaries, yesterday reported a pre-tax profit of £1.24bn ($1.97bn) for 1994.

Mr Cedric Brown, chief executive, described the results as "satisfactory" and said underlying operations were strong, although record warm weather at the end of last year reduced expected UK gas sales.

The net profit on an historical cost basis was £737m on turnover of £9.69bn. That compares with a £181m loss in 1993, when the company took a £1.65bn restructuring charge to cover the cost of its radical reorganisation.

Yesterday the company announced a further £195m exceptional charge to cover the cost of re-locating many corporate offices and to help defray the costs of cleaning up old gas manufacturing sites.

Mr Brown said the restructuring was ahead of schedule. A total of 10,000 employees accepted voluntary redundancy last year, while another 8,000 to 10,000 are expected to accept in 1995.

But in holding the annual dividend to 14.5p executives said the cash benefits of the restructuring would only begin to flow through to the bottom line this year.

Mr Brown accepted, however, that the restructuring was proving politically contentious.

"Some services have suffered during the change period," he said. But British Gas will persevere with its reforms, even though some of the changes "are a natural cause of concern" for many customers. "We can't stand still and do nothing. We have to cut our cloth according to the new [competitive] environment."

The company reported that competitors have now captured 60 per cent of the commercial and industrial market. British Gas's monopoly over the domestic market is due to be lifted in 1998.

Mr Brown yesterday deflected questions about pay and executive incentive schemes, saying that full details would be published in the company's annual report in April. But the political controversy surrounding it shows no sign of easing. In the Commons yesterday Mr John Major mounted a robust defence of British Gas during stormy question time exchanges with Mr Tony Blair, the Labour leader. Mr Blair claimed that the privatised utilities were widely regarded as "the unacceptable face of privatisation". Mr Major said that a privatised British Gas offered greater efficiency and lower prices.

It later emerged that initial concerns over executive pay at British Gas had been reported to the cabinet by Mr Michael Heseltine, trade and industry secretary.

Restructuring continues to bite

Pace of change will intensify this year, writes **Robert Corzine**

British Gas yesterday reported better-than-expected progress in its radical restructuring to prepare the group for the abolition of its domestic monopoly in 1998.

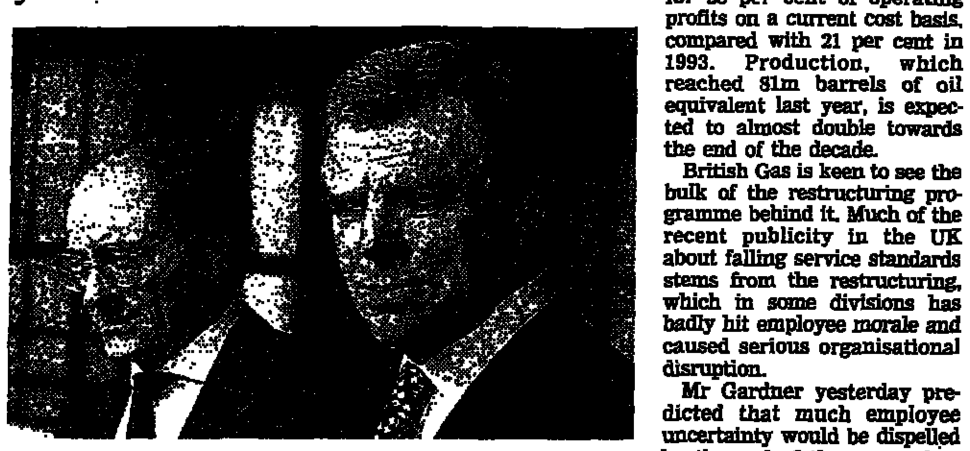
The starkest evidence of the rapid pace of change was the announcement that a total of 10,000 employees took voluntary redundancy last year, out of 25,000 who will leave the company by 1998 under the reorganisation.

Mr Roy Gardner, British Gas's new finance director, said the pace of the restructuring would intensify this year. About £400m ($636m) of the £1.65bn in provisions announced in 1994 to cover the changes had been spent; another £600m of the provisions would be drawn down this year.

British Gas says another 8,000-10,000 employees are likely to take voluntary redundancy this year, bringing the total close to 20,000 over two years.

Both Mr Gardner and Mr Cedric Brown, chief executive, described 1994 as a base for future growth. Mr Gardner said: "We're only just beginning to feel the benefits." He was confident that British Gas would exceed its target to reduce annual costs by £600m by 1998.

Mr Peter Spring, gas sector analyst at Henderson Crosthwaite, said the message of yesterday's results was that



Trevor Humphries

Roy Gardner (left) and Cedric Brown: base for future growth

"cost control has yet to feed through to the bottom line, but there is a lot to come".

British Gas expects big efficiency gains to emerge this year as the company reduces staffing layers from 11 to five. The replacement of 12 different regional billing systems with a single national system by the end of the year should also produce efficiency gains, said Mr Gardner.

The benefits of the company's broader strategic re-alignment were also evident in yesterday's figures. The sale of Consumers Gas in Canada and Bow Valley, the Canadian oil and gas explorer, helped to boost proceeds from asset disposals to £972m, against £156m last time.

Net borrowings of £2.01bn were more than halved compared with December 1993, and gearing fell from 37 to 21 per cent.

The impact of cost cutting on those unregulated divisions not directly affected by the UK downstream restructuring was also evident.

Operating profits at the exploration and production division, which is expected to provide a growing proportion of profits to the end of the decade, were up £37m to £296m.

The division now accounts for 28 per cent of operating profits on a current cost basis, compared with 21 per cent in 1993. Production, which reached 81m barrels of oil equivalent last year, is expected to almost double towards the end of the decade.

British Gas is keen to see the bulk of the restructuring programme behind it. Much of the recent publicity in the UK about falling service standards stems from the restructuring, which in some divisions has badly hit employee morale and caused serious organisational disruption.

Mr Gardner yesterday predicted that much employee uncertainty would be dispelled by the end of the year, when all the remaining workers would know whether they would have a job.

British Gas has created five self-standing business units. Mr Brown said it had not yet been decided whether to make TransCo, the gas transportation division and the public gas supply unit, separate legal subsidiaries.

He said such a move would make sense under new gas legislation, which would require the two units to apply for different licences from Ofgas, the industry regulator. But Mr Brown denied that such a step could be the prelude to the possible divestment of the domestic gas distribution business.

Trafalgar's preference trade at year's low

By Peggy Hollinger

Northern Electric lost no time yesterday in pointing out that Trafalgar's preference shares were trading at a low for the year.

Indeed, at a close of 85½p, they are below the underwriting price of 88p.

The fact that Swiss Bank Corporation, Robert Fleming, UBS and Cazenove have underwritten 57 per cent of the £735m issue at a premium raised a few eyebrows in the City of London.

Some sceptics suggested that there were few institutions prepared to take the shares, and thus the advisers had to shoulder more of the burden than they might have been comfortable with.

SBC, lead adviser, is understood to have taken on the biggest exposure of the four, which could end up with 20 per cent of the enlarged group.

It argues that the underwriting price is a sign of its confidence in the client.

Justifying the investment, Mr Brian Keelan, of SBC, said the convertible preference shares would offer a gross yield of 8.5 per cent, similar to the returns on long-term gilts. "That's a very good return," he said.

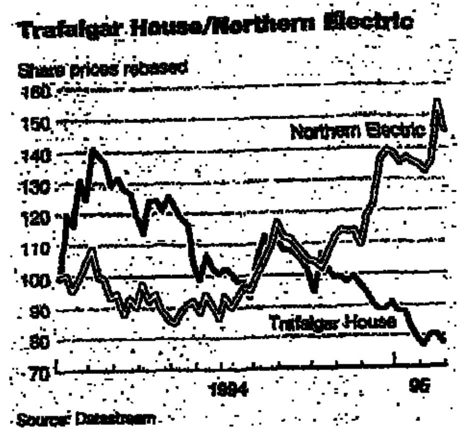
LEX COMMENT

Trafalgar/Northern

Trafalgar House's £11 a share final offer for Northern Electric is mean but may just succeed. That is good news for Trafalgar's shareholders, who have had to put up with a string of disappointments, not least of which was yesterday's profit warning. If it wins the battle, Trafalgar will gain not only Northern's steady cash flows but also big tax benefits.

Northern's final defence was about as good as could be managed. By promising to gear itself to the hilt, it is able to offer shareholders financial goodies worth £6; tax-exempt investors may receive a further £1 from the taxman. That means Trafalgar is offering £6 and, perhaps as little as £5, for the rump – an implied yield for 1996-97 of 8.5 per cent or 10.2 per cent given Northern's promise to raise its dividend to 51p gross by then.

Northern now has two weeks to persuade shareholders to reject the offer. At first glance, it might seem that the rump should fetch a higher valuation than that implied in the bid. But that is not necessarily so. Not only will the rump be so heavily indebted that the scope for dividend increases after 1996-97 will be limited; an incoming Labour government might so tighten regulation that dividends are cut.



Northern also has to struggle against the argument that investors should sell out to encourage bids for other electricity companies. But this argument cuts both ways. If Northern is sold cheaply after all it has done to improve shareholder value through gearing up, other electricity companies will have little incentive to follow suit.

Aetna Malaysian upheaval

Buchanan Capital Management has successfully taken control of Aetna Malaysian Growth Fund at an extraordinary meeting in Hong Kong yesterday.

Some 97 per cent of shareholders voted to remove the existing board, to terminate the appointment of Aetna Investment Management (Hong Kong) as managers of the fund and to appoint Buchanan in its place.

Until recently, shares in the $80m Aetna Malaysian Growth Fund, a Cayman registered closed-end investment company listed in London, have been trading at a discount to net asset value of about 20 per cent. The reorganisation of the fund should enable shareholders to sell their investment at a price closer to net asset value.

London-based Buchanan, which manages $500m on behalf of a range of institutional and private clients, owns about 30 per cent of the the Malaysian Growth fund.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
British Gas	Yr to Dec 31	9,698	(10,378)	1,245	(215L)	17	(4.2L)	8.1	July 5	8.1	14.5	14.5
Campbell & Armstrong	Yr to Dec 31	60.7	(50.5♥)	0.2	(2.25⚹)	1.4	(15.6L)	nil	-	nil	nil	nil
DCS	6 mths to Dec 31	4.01	(2.6)	0.105	(0.041)	0.88	(0.56)	-	-	-	-	0.5
Green Property	Yr to Dec 31	7.99♣	(4.75)	4.03	(2.14)	10.59	(8.68)	3	Mar 31	2.8	4.2	4
ICI	Yr to Dec 31	9,189	(10,632)	408	(360)	26	(17.9L)	17	Apr 26	17	27.5	27.5
London Forfaiting §	Yr to Dec 31	1,032	(687)	16.05	(21.48)	11.51	(16.15)	6.1	Apr 28	6.1	9.3	9.3
Paramount	6 mths to Nov 30	2.03	(1.36)	0.385	(0.273)	0.28	(0.4)	0.047	May 29	-	-	0.2
Petroceltic ‡‡	6 mths to Sept 30	0.18*♣	(0.36)	0.01L	(0.03L)	0.53L	(1.49L)	-	-	-	-	-
Provident Fin	Yr to Dec 31	445.3	(399.9)	81.2	(62.5)	40.64	(31.43)	14	May 4	11.25	20.5	16
Royal Dutch/Shell	Yr to Dec 31	84,317	(83,748)	6,827	(5,787)	13.28‡	(9.99)	5.05	May 30	4.9	8.85	8.6
						45♦	(33)	15.9	May 23	13.8	27.1	24
Royal Insurance	Yr to Dec 31	4,762	(5,125)	401	(143)	52.7	(23)	8	May 5	5	12	7.5
SmithKline Beecham	Yr to Dec 31	6,492	(6,164)	691⚲	(1,220)	2.7	(30.4)	3.9#	Apr 18	3.3	12.9	10.899
Telegraph	Yr to Dec 31	252.1	(255.7)	45	(60.2)	23.4	(27.4)	7.5	May 4	7.5	13	13
Towry Law	6 mths to Dec 31	9.36	(10.9)	1.14L	(0.565)	5.4L	(1.9)	1.5	Apr 3	1.5	-	4.6

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
British Assets	3 mths to Dec 31	-	(-)	-	(-)	-	(-)	1.095	Apr 7	1.09	-	4.38
Fleming Fledgeling	Yr to Dec 31	373.8	(392.6)	0.331	(0.244)	2.63	(1.94)	2	Apr 26	2	3	3
TR High Income	Yr to Dec 31	123.5	(144.5)	1.459	(1.57)	6.28	(6.79)	1.5#	Apr 28	1.5	6.1	6☆

Dividends shown net. Figures in brackets are for corresponding period. §USM stock. *Royalty income. ♣Irish currency. ‡Dutch currency; figures for Royal Dutch. ♦Figures for Shell Transport. ♥Comperatives annualised. ⚹Includes £737,000 exceptional charge. ⚲After £580m restructuring provision. #Fourth quarterly dividend. ☆Includes 5th interim of 1.5p. ‡‡Exploration Securities Market.

COMPANY NEWS: UK

Restructuring charge and tax bill hit SB

By Daniel Green

A £580m ($922m) restructuring charge and a £216m one-off tax bill left 1994's profits and earnings sharply lower at SmithKline Beecham, the pharmaceuticals and healthcare company.

Excluding these items, the company's record of underlying sales and profits growth survived last year's US patent expiry of its once biggest-selling product Tagamet, the ulcer drug.

Separately, Mr Jan Leschly, chief executive, said that the company was not going to bid for Wellcome, the rival drugmaker which is the subject of a hostile bid from Glaxo, the UK's biggest drugs company.

SB's pre-tax profits for the year to December 31 1994 were £657m (£1.22bn), with earnings per share at 2.7p (30.4p).

Mr Alan Spall, finance director, said that excluding the restructuring charge, but including the contributions made by two large acquisitions last year, the pre-tax profit was £1.27bn.

Excluding exceptional charges and the one-off tax charge, earnings per share were 32.3p (29.1p). Sales of continuing operations rose 8 per cent to £6.07bn (£5.63bn).

The restructuring charge is to pay for reorganisation after the acquisition of Diversified Pharmaceutical Services, a drug distributor, and Sterling Health, the over-the-counter medicines business formerly owned by Eastman Kodak.

Any territories outside Europe and North America which now have more than one local headquarters operations will eventually have only one. The company will also reduce the number of manufacturing sites from more than 70 now.

The company's three divisions had widely differing fortunes in 1994. Sales in pharmaceuticals rose 4 per cent to £3.6bn, though sales of Tagamet fell 28 per cent to £484m, as a result of the patent expiry. Sales of another older product, Augmentin, an antibiotic, fell 2 per cent to £736m. These declines in the prescriptions drugs business were more than offset by growth in five newer products.

Europe continued to be difficult in some markets, especially Italy where the government cut many drug prices.

Mr Leschly said he expected further price controls to be imposed by European countries in 1995, perhaps in France, Europe's second biggest market, the Netherlands and Spain.

See Lex

Getting into an everyday habit

David Lascelles on Royal Dutch Shell's drive to bring down costs

Senior executives from all parts of Royal Dutch Shell, gathered in London, are discussing one of the biggest decisions facing the company: how to reorganise the central offices which act as the nerve centre to the Anglo-Dutch company's sprawling empire. In the process, they must ensure that any changes have the support of key personnel whose positions might be affected.

Although the central offices, split between London and The Hague, employ only a small fraction of Shell's staff – about 5,000 out of more than 100,000 – the decision will have a crucial bearing on the structure of Europe's largest oil company. The exercise marks the culmination of a drive by Royal Dutch Shell to bring down its £50bn ($80bn) annual costs and raise its return on capital.

Mr John Jennings, chairman of Shell Transport and Trading, said yesterday that the central offices cost about £600m a year to run. "The ideas that we are kicking around give confidence that we can find a more cost-effective role for the centre." He expected that a decision would be finalised next month.

The review of the centre was launched last September and is being conducted with the help of McKinsey, the management consultants, though they are said by Shell officials to be acting as "a sounding board" rather than initiators of proposals. The services provided by the centre include technical support, based mainly in The Hague, and finance and marketing in London.

Some analysts believe the changes could be quite radical. Mr Fergus MacLeod, of NatWest Securities, believes it will be the largest internal shake-up at Shell since the 1950s. He expects Shell to try to streamline its organisation by "clustering" country operations into regional groupings, and by creating a more "global" structure to oversee upstream activities. This would enable Shell to establish better priorities in exploring for and producing oil and gas.

Yesterday's results showed that Shell's drive for greater efficiency and profitability is paying off. The underlying fourth-quarter profit increase of 28 per cent reflected an improvement in several measures of performance.

Unit production costs in the main operating areas are falling. In the upstream business, the cost of producing a barrel of oil has fallen in five years from just over $6.50 to around $5. In the downstream area, the cost of refining a barrel of oil has fallen from just over $3 to just below. Mr Jennings said: "It is very difficult to do things quickly here. The challenges are enormous, but so are the potential benefits. Every 10 cents we save per barrel equals $60m in profit before tax."

In its west European refining operations, Shell shed 10 per cent of its staff and achieved savings of £40m. Overall group staff numbers fell by 11,000 to 106,000 and Mr Jennings said: "This trend is not yet past". Last year also saw the completion of Shell's withdrawal from the metals business, with the sale of most of its operations to Gencor of South Africa. The Australian metals business was floated off as a new company, Acacia.

The biggest turnround, however, came from Shell Oil, the group's long-troubled US subsidiary, where earnings have recovered strongly from a sharp decline in 1991 to reach $1bn last year. "They have rejuvenated the company," said Mr Jennings. Perhaps the strongest measure of progress was the improvement in return on capital employed, which rose from 7.9 per cent to 10.4 per cent, although this is still some way below the 15 per cent level, which Mr Cor Herkströter, chairman of the Royal Dutch Shell group, says he wants to earn on existing assets, with 12 per cent on new. Mr Jennings says some parts of the group are already earning these sorts of returns, "but others are not and that's the mountain we're climbing". Cost cutting, he says, must become "part and parcel of everyday activity, not just a one-off".

Part of Shell's difficulty is that its competitors are cutting costs too. All the oil majors have far-reaching programmes to become more competitive and Shell is, if anything, the laggard. Mr Peter Vogtlander, co-ordinator of Shell's fast-improving chemicals business, ascribes some of the improvement to the fact that Shell has cut its costs more than many of its competitors. "But maybe that was because ours were higher to start with." Eventually the market will catch up and Shell will have to sacrifice some of its margins to retain market share, he believes.

The pressure to cut costs will be intensified by flat oil prices, if Shell's view of the oil market is correct. Mr Jennings forecast yesterday that oil prices would remain little changed as far ahead as he could see because, even though demand will increase, there will be over-supply. The market could face disruptions, "but it's difficult to see oil moving out of the $14-$20 trading range."

ICI says global recovery has only just begun

By Motoko Rich and Daniel Green

The recovery in the world's chemicals industries has only just begun, said Sir Ronald Hampel, ICI's chief executive, yesterday.

Trading conditions would continue to improve in the current year as Europe followed US to recovery. "I am not one of the pessimists who think we have got anywhere near the top of the cycle," he said.

But the company also announced a restructuring of its explosives division and extra payments to its pension fund where a review had revealed a £189m ($301m) deficit. The deficit would be eliminated during three years starting with a £75m payment in 1995, said Sir Ronald.

ICI's shares fell 7p to 715p, even though the annual results, also announced yesterday, were at the top of analysts' forecasts.

Pre-tax profits rose 84 per cent from £280m to £514m as turnover increased by 9 per cent at £9.2bn (£8.4bn). Higher volumes lifted revenue by 7 per cent and sales per employee were up 55 per cent compared with 1990.

After exceptionals, earnings per share were 26p (17.9p). Mr Alan Spall, finance director, said ICI was committed to rebuilding its dividend cover and added that the company intended to drive its return on assets up to 20 per cent from its current level of 11 per cent.

Group net indebtedness fell by £357m to £139m. Mr Spall said the company was not "embarrassed by the strength of the balance sheet". He said: "We are determined that when we spend our hard earned cash, the expansion will create value."

Costs and write-offs associated with the restructuring programme, as well a loss on the flotation of EVC, the PVC producer, took the shine off the group's post-exceptional profits, which were up 13 per cent to £408m from £360m.

Sir Denys Henderson, in his last results presentation as chairman, said the group was helped by improved economic conditions, price increases from the third quarter onwards, continued restructuring benefits and strong cash flows.

Royal Insurance surges to £401m

By Ralph Atkins, Insurance Correspondent

Royal Insurance, the composite insurer announced a jump in pre-tax profits to £401m ($638m) for 1994 underlining the buoyancy of the sector over the past 12 months. Profits for 1993 were £143m after disposals.

Mr Richard Gamble, chief executive, said trading conditions had become more competitive. But constraints imposed by poor financial market performance on insurance companies' asset bases would limit rate cutting in months ahead, he said. "Why should anyone want to break ranks and lose money?"

He also stressed improvements in management information systems and claims handling since the last peak at the end of the 1980s.

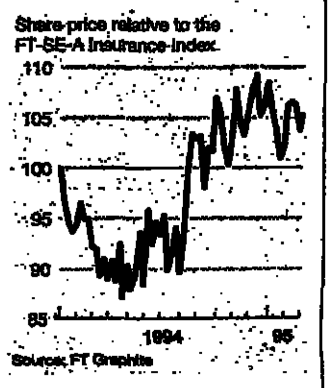
Royal reported a £517m net depreciation in its investment portfolio mainly reflecting bond and share price falls in the UK, US and Canada. The group made a shift in its investment strategy, however, by investing £298m net in UK equities during the year.

Total premium income dipped from £5.13bn to £4.76bn.

The group said rates for its private motor policies had fallen by about 5 per cent over the past year and household policies by about 3 per cent. It set aside an additional £20m reserves for mortgage indemnity policies which have lost the group £569m since 1991.

Royal Insurance

Share price relative to the FT-SE-A Insurance Index



Source: FT Graphite

In commercial insurance, Royal said rates were flat rather than falling. UK underwriting losses on liability insurance policies – a recent blackspot – fell to £40m (£65m).

Mr Gamble said Royal's international strength would help offset tougher conditions in the UK. The group has focused management resources on boosting the profitability of its US which showed a further improvement in the last three months of 1994. Its US operations were hit by severe weather and catastrophe losses in the first quarter and pre-tax operating profits fell from £28m to £6m.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 24.02.95: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.80	16.39	16.39
0100	8.94	17.01	17.01
0130	8.98	17.44	17.44
0200	8.98	17.45	17.45
0230	8.94	17.01	17.01
0300	8.95	16.50	16.50
0330	8.95	16.50	16.50
0400	8.77	16.46	16.46
0430	8.80	16.38	16.38
0500	8.77	16.38	16.38
0530	8.93	16.40	16.40
0600	8.89	16.40	16.40
0630	8.80	16.42	16.42
0700	9.06	20.04	20.04
0730	9.38	31.18	34.88
0800	10.23	33.97	38.98
0830	11.10	47.86	54.52
0900	11.51	58.27	67.09
0930	15.84	68.29	78.95
1000	15.93	78.65	89.06
1030	15.90	76.89	87.94
1100	15.87	76.06	87.02
1130	15.85	81.47	94.83
1200	15.86	83.86	97.68
1230	15.76	82.08	94.76
1300	15.68	65.12	74.94
1330	11.38	43.61	50.20
1400	9.14	34.92	39.85
1430	9.09	33.15	33.15
1500	9.07	28.75	28.75
1530	9.07	26.03	26.03
1600	9.08	28.08	28.08
1630	9.07	61.27	61.27
1700	9.12	193.59	236.01
1730	9.42	318.19	372.74
1800	25.47	356.47	410.54
1830	26.39	262.66	304.83
1900	26.95	151.58	176.74
1930	25.00	78.16	89.65
2000	12.03	31.15	35.55
2030	10.24	21.04	21.04
2100	10.22	18.16	18.16
2130	10.22	17.77	17.77
2200	10.22	17.55	17.55
2230	9.00	9.20	9.20
2300	8.89	9.05	9.05
2330	8.78	9.06	9.06
2400	8.80	9.06	9.06

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.60/MWh becomes 1.860p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction [illegible] until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8:30am and 5:15pm Monday to Friday.
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RECRUITMENT

JOBS: some employees are questioning remuneration systems that reward company directors for others' efforts

Finding fairer ways of sharing the hard-won spoils

A lawyer sitting next to me on a recent flight was complaining about his pay. He was very well paid but he felt that he deserved much more than the reward system operated by his partnership allowed.

Like most such partnerships it operated a lockstep system which paid individuals on the basis of how many points they had accumulated in the firm. The points were related to length of service, experience and seniority.

His personal grouse was that he was bringing in a large slice of the money and yet the system meant that others who were doing less than him were enjoying a greater share of the spoils.

He was not, however, complaining too loudly. "One day I'll be able to take life more easily and let the younger ones earn the money like I did," he said.

Such arguments have ranged across all walks of life for years. In Nelson's Navy, the admirals could expect to get the largest purses from any prize ships collected by their captains.

The captains themselves would get a reasonable share and the crews would be cut in too.

There were complaints, but people seemed to understand the system. The Navy had ways of persuading those with stronger objections to think again.

In today's larger companies the rope's end and the press gang are not so readily employed by human resource departments. Where layers of management have been removed and a greater degree of responsibility has been spread among employees, some managers and employees are beginning to question systems which put the biggest share of the reward from their efforts into the hands of the directors.

The biggest problem seems to be that of bonuses. This was confirmed by an Arthur Andersen report published this week, which said that bonus payments to company chiefs bear little relation to share price performance or dividend payments.

A second finding of the report that the heads of big companies received just about the right amount of basic pay or in some cases too little suggests that it is bonus systems which need more attention.

To reach its conclusions, Arthur Andersen assumed the role of remuneration committee for UK PLC – separately assessing the pay of the leaders of the FT-SE 250 companies. Calculations were made using the Arthur Andersen Complexity and Size methodology.

The method involves four criteria, two covering size and two covering complexity. Assessing complexity, it measures the diversity, sophistication and risk associated with companies' businesses, products and services. It also measures what it calls "degrees of internationality".

For its assessment of size, the method involves a composite of market capitalisation and turnover in addition to a measure of the total number of employees.

Arthur Andersen's remuneration team was particularly pleased by the strong correlation it achieved with the salary rates of the highest paid directors in big companies.

It said that a minority of companies, which it does not name, pay their chiefs far too high a basic salary. But most of the companies pay salaries either within the expected pay range or below it. Surprisingly, perhaps, given the recent adverse publicity, these included the privatised utility companies.

● Arthur Andersen has just developed an intriguing share option scheme for Saatchi & Saatchi (not part of the study).

> The advantage to Saatchi of the scheme is that if executives leave, they forfeit the shares

This involves issuing so-called "phantom share options" for senior executives in Saatchi's various subsidiaries – known as network shares at Saatchi. These are businesses that do not have their own quoted shares. The idea of the scheme is to bring the rewards for executives in the different operations into line with the performance of their business. The phantom shares are valued using a calculation to assess the rate of return the market would expect from an investment in one of these companies on a notional capital outlay.

The phantom shares must be held for three years. They can be cashed in in groups of not more than a quarter of the total initial holding, in years four, five, six and seven.

Financing the scheme involves the company establishing an employee share trust for the 500 to 750 executives expected to be participating. The employer pays contributions into the trust, which can purchase ordinary shares in the company or exercise share options granted by the company to the trustees. The trustees can even buy other securities. The intention, however, is to finance the scheme by issuing options in Saatchi shares.

The advantage to Saatchi of what is effectively a way of "warehousing" share options is that executives who leave the company, in most circumstances, will forfeit their phantom shares. A more conventional mechanism has been devised to allow performance-related share options to be granted to the company's most senior executives or those whose duties are not confined to specific parts of the business.

● A New Year note about the lack of courtesy among company recruiters who often cannot be bothered to acknowledge job applications seems to have stirred some recognition among readers.

One reader, an executive from Everberg, Belgium, who has been seeking work as a sales and Marketing director in Europe, said that receiving no reply to job applications is the smallest sin a company can commit.

"I received rejections from openings I never applied for in the first instance." Companies and selection organisations, he said, were routinely confused when he inquired what had happened to his curriculum vitae. What he calls "a typical German ploy" is to send a letter acknowledging receipt of a CV only to plead complete ignorance of the applicant when he rings in to see how things have progressed three weeks later.

The executive is not universally critical. Notable exceptions among selection firms, he said, have been Boyden International, Korn Ferry, Egon Zehnder and Spencer Stuart. He said: "All these companies not only acknowledge receipt swiftly but if matters take longer than foreseen they even get an interim letter out. That is what I call being customer focused."

The executive said he has kept track of all his applications and the manner in which they are treated and has passed on the name of those who have not been helpful to a friend in the human resources department of a large US multinational.

Another reader from Seaford in Sussex, made a similar point. People have long memories, he said, and would not feel inclined to buy the goods and services of companies which had a cavalier approach to recruitment. "After all," he said, "who wants to deal with an organisation that doesn't acknowledge an enquiry?"

Richard Donkin

هكذا من الاصل

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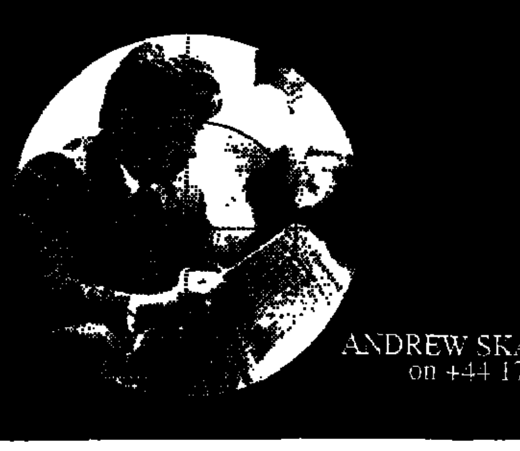

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COMMODITIES AND AGRICULTURE

Physical gold supply gap forecast

By Kenneth Gooding

Physical demand for gold this year and in 1996 will be well ahead of supply, leaving a gap that could only be filled by "prompted disinvestment," according to Ms Rhona O'Connell, analyst at T. Hoare & Company, the stockbroker.

"This requires a sharp move in price, or sustained volatility. The worst case would be a sustained period [with the gold market] in the doldrums which might bring out disillusioned liquidation," she suggests in *Hoare's Goldbook '95*.

Ms O'Connell says the gold price is likely to rise to an average of $405 a troy ounce this year, from $384.28 in 1994, and to an average of $425 next year. Physical gold buyers are now used to price ranges based some $50 an ounce higher than in 1992 and 1993, she points out, so they should give the market solid support at prices between $365 and $375 an ounce.

● Platinum prices this year are likely to range between $400 and $450 an ounce, "with the occasional excursion of up to $20 at either end," according to Ayrton Metals' 1995 Platinum Yearbook. Last year the metal traded between $380 and $430, a "remarkably narrow" range.

Ayrton, now part of Standard Bank London, suggests that price movements this year will be prompted by political events in South Africa, the world's biggest platinum producer, and Russia, the second biggest. Despite rumours of problems at Norilsk, which produces most of Russia's platinum group metals, Russia had agreed to deliver increased quantities to western customers in 1995, "so it must be assumed that [Russian] stocks are more than adequate for the coming year."

Palladium was the "star" among precious metals in 1994, rising steadily from $120 an ounce to $155, and "$180 looks a good target for this year," Ayrton suggests, "although this does not rule out a combination of factors which could at least temporarily push the market well above that level".

On the other hand, rhodium's price might still have some way to fall in spite of dropping from $950 an ounce to $550 last year. If the price fell to $450, car makers – who use the metal in anti-pollution catalysts – would be likely to stockpile rhodium and send the price quickly back to $600-$700 an ounce.

Goldbook '95: from T Hoare, Cannon Bridge, 25 Dowgate Hill, London EC4R 2YA, UK.

Ayrton Metals Platinum Yearbook 1995: from Standard Bank London, Cannon Bridge, 25 Dowgate Hill, London EC4R 2SB, UK.

Price rises seen curing mine finance 'indigestion'

By Kenneth Gooding

Mining companies raised US$10.123bn via share and and convertible issues last year, 109 per cent more than the $4.839bn in 1993, according to an analysis by Ord Minnett, the stockbroker associate of Jardine Fleming.

This gave the mining equities market "severe indigestion," Mr Nick Hatch, Ord's analyst, suggests, and resulted in three planned issues being shelved since December: the Ammeberg zinc flotation (a Swedish flotation of Union Miniére's Scandinavian assets); Samax, a UK-based "junior"; and the initial public offering in the US of Southern Peru Copper.

Mr Hatch suggests 1995 is going to be a much quieter year for mining corporate finance departments in terms of equity raisings.

"Instead, cashed up mining companies with strong cash flows – thanks to higher commodity prices – will be desperately trying to decide what to do with their money," he says in Ord's International Mining Weekly. "Look out for an increase in activity in mergers and acquisitions, an increase in the number and use of stock buy-back programmes, particularly in the US, repayment of debt, and perhaps even the resuscitation of special dividends."

Putting 1994 into perspective, Mr Hatch recalls that a recent survey of planned capital expenditure in Mining Magazine estimated that US$18.454m was earmarked for capital expenditure by the copper, nickel, lead, zinc and precious metals miners over the next five years. Assuming that half, $9.2bn, would be financed by equity, this was equivalent to $1.85bn a year on average. However, the combined equity and convertible fund raisings for these commodities in 1994 were $6.25bn.

"In other words, more than three years of equity for capital expenditure was raised in one year."

The Ord Minnett analysis shows that precious metals companies raised $3.348bn in 1994, or 33 per cent of the total, compared with $3.1bn, or 64 per cent, in 1993. Base metals miners last year raised $3.654bn, or 36 per cent of the total, against $1.2bn or 24.8 per cent in 1993. Finance raised by diamond and industrial minerals companies last year jumped to $1.027bn or 10.1 per cent of the total, compared with $164m or 3.4 per cent. This was mainly because of a huge rise in coal fund raisings (principally for the RJB Mining acquisition of British Coal assets and the Ziegler Coal initial public offering in the US). Diversified mining companies raised $2.054bn last year, 20.3 per cent of the total, against $460m or 9.5 per cent.

Mr Hatch says that only $6m was raised by mining companies in January this year followed by $250m so far in February. This is equivalent to an annual rate of only $1.2bn.

Danish North Sea oil find 'very encouraging'

By Hilary Barnes in Copenhagen

American oil company Amerada Hess, at the head of a consortium with Danish companies, has reported a "very encouraging" find of Brent-quality oil in the Danish sector of the North Sea.

A well, about 240km west of the Jutland port of Esbjerg, tested at 318 tonnes a day through a ¾-inch pipe.

The consortium will now carry out seismic mapping to obtain a detailed picture of the structure.

So far, only one consortium produces oil and gas from the Danish sector, the Danish Underground Consortium, in which the Danish company, A.P. Moller is the operating company and its partners are Shell and Texaco. The consortium last year produced about 9m tonnes of oil and 4m tonnes in oil equivalents of gas.

● Cuba has set a domestic oil production target of 1.4m tonnes of crude for this year, 100,000 tonnes more than in 1994, according to the official media, writes Canute James in Kingston, Jamaica.

Most of the locally produced oil is used in electricity generation, with 934,000 tonnes going to power plants last year. Domestic oil now accounts for 27 per cent of Cuba's electricity generation, the reports said.

Cuba has been trying to increase domestic crude production to cover a shortfall in imports following the collapse of the Soviet Union.

Drought 'to alter world wheat trade patterns'

By James Harding

Drought in traditional wheat exporting countries has opened up marketing opportunities to other producers to increase sales abroad, the International Wheat Council said in its latest report out yesterday.

The changed pattern of wheat trade for both this year and next is expected to favour US and Latin American producers as Australian and South African harvests were severely depleted by drought.

The IWC's monthly survey of global wheat production had already factored in the effects of drought and yesterday's report cut the 1994-95 production estimate by just 1m tonnes to 526m, mainly reflecting a reduced estimate for Russia.

The continuing effect of drought on coarse grain production has been more marked, with the 1994-95 forecast at 859m tonnes, down 5m tonnes on a month ago. Drought in South Africa was the main cause of the reduction.

The implications for world trade of drought are becoming increasingly clear.

The Australian Wheat Board has said all efforts will be made to meet demand in its traditional markets in Asia and Africa. However, with 1994-95 production expected to be half last year's level at 8.5m tonnes, other suppliers are wondering whether Australia will meet all its foreign commitments.

According to the report, South Africa, with a forecast output of 5.5m tonnes, is not expected to "achieve more than a token presence on the international market" in 1994-95 trade.

The IWC has observed a slight easing in international prices in the wheat market. It notes that although a tightening of world stocks is forecast, the outlook for 1995-96 supply is good, especially among the northern hemisphere's leading exporters.

Crop yield futures plan revived

By Laurie Morse in Chicago

The Chicago Board of Trade, backing off from a decision to abandon plans to offer innovative new futures contracts that would help grain growers manage crop risk, later this year will launch a futures contract aimed at hedging maize yields in Iowa. This pilot programmes, if successful, could lead to similar contracts for other commodities.

The earlier exchange decision to shelve the new products entirely, coming as the US Congress debated a new farm law that could cut away the existing safety net of government price supports, brought an angry response. Farm interests and high-ranking government officials said "area yield" contracts, while experimental, could offer much-needed, private-sector tools to limit dependence on federal subsidies.

The contracts are designed to allow crop insurers, grain elevators, railroads, and farm managers to hedge against the variability in size, or yield, of a particular crop in a particular area. The CBoT's maize, wheat, oats, and soyabean futures already provide tools for managing price risks for those crops.

President Clinton's economic report to Congress, released earlier this month, addressed this aspect of the farm issue specifically. "Risks to farm revenues come from two sources: prices and yields. When both prices and yields are insured, so is the product of the two, farm revenues. Price insurance is now available on private markets in the form of futures and options contracts. Yield insurance, on the other hand, is offered by the Federal Government in the form of subsidised crop insurances," the report said.

In November the exchange sought regulatory approval to trade four area yield contracts that would cover soyabeans in Illinois, maize Iowa, and wheat in North Dakota and Kansas. More recently, however, it decided that the products required such extensive development and marketing efforts that they should not be launched this year.

While conceding that the proposed contracts were complicated, the decision to delay the launch might have caused the CBoT to miss an important opportunity, said Mr Joseph Dial, a commissioner at the Commodity Futures Trading Commission, the exchange's chief regulator. Timing was crucial, he said, because as Congress began work on the 1995 Farm Bill, there was every sign that the government's role in agriculture was going to diminish.

"This is an opportune time for the CBoT to come forward with a tool that the private sector can offer to agriculture to manage risks," he said. "The psychology is important."

In an unusual letter to Mr Patrick Arbor, the CBoT's chairman, Mr Dial said: "The concept behind these unique contracts is on the cutting edge of the new era in agricultural risk transference," and urged Mr Arbor to take the lead in supporting the contracts. The CFTC gave its approval yesterday.

In response to a barrage of letters, the CBoT's New Product's Committee had already agreed to reconsider the area yield contracts at a meeting next Monday.

Cuban nickel output set to rebound

By Pascal Fletcher in Havana

Cuba's production of nickel and cobalt fell by 11 per cent to 26,772 tonnes in 1994, an official at the Ministry of Basic Industry said this week. But output is forecast to bounce by 20 per cent this year, following injections of foreign capital and modernising investments in the industry.

The final 1994 production figure was considerably lower than the original official output forecast of 31,500 tonnes, which some senior Cuban industry officials were still publicly maintaining at the end of last year. That would have been nearly 1,500 tonnes up from 1993 output but still well below the record of 46,592 tonnes recorded in 1989, when the former Soviet Union and its Eastern European allies were the main consumers of Cuban nickel and cobalt.

The fall-off in Cuban production was triggered by the drying-up of essential industry inputs previously supplied by the Soviet bloc.

Cuba's nickel industry badly needs modernisation and fresh capital. One plant, the Comandante Rene Ramos Latour at Nicaro in eastern Cuba, has been operating for just over 50 years.

The ministry official said the 20 per cent production increase for 1995 was "achievable". He cited recent investments in the industry such as a 1994 agreement with Canada's Sherritt that links the Comandante Pedro Sotto Alba nickel/cobalt processing plant at Cuba's Moa Bay with Sherritt's refinery at Fort Saskatchewan in Canada.

"There's no doubt that the association with Sherritt will have an effect this year," he said.

In addition, a $21m line of credit organised by the Dutch ING Bank in early 1994 was used to help modernise another plant, the Comandante Ernesto Che Guevara at Punta Gorda, where a third of the furnaces received brand new combustion systems.

Another Dutch group involved in commodity trade, Vitol, also participated in this financing for Cuba's nickel sector.

If the 1995 production forecast is realised, Cuba's nickel and cobalt industry will still be producing only around half of its full potential capacity of 65,000 tonnes a year.

A fourth ore processing plant, which was originally being built by a consortium of Soviet bloc allies, is still under construction.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1833-34	1871-72
Previous	1857.5-58.5	1896-97
High/low	1845/1844	1890/1865
AM Official	1843.5-49.5	1861-62
Kerb close		1872-3
Open int.	220,266	
Total daily turnover	38,673	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1810-20	1850-60
Previous	1830-40	1870-80
High/low	1830	1865/1850
AM Official	1829-30	1860-70
Kerb close		1850-60
Open int.	2,883	
Total daily turnover	397	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	582.5-83.5	601-601.5
Previous	580-81	598-600
High/low	583.5	606/590
AM Official	583.5-84.0	602-3
Kerb close		595-6
Open int.	36,147	
Total daily turnover	6,965	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8190-200	8339-40
Previous	8300-10	8450-60
High/low		8375/8275
AM Official	8200-205	8350-55
Kerb close		8275-80
Open int.	56,552	
Total daily turnover	10,321	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5320-30	5410-15
Previous	5470-80	5560-70
High/low		5530/5400
AM Official	5360-70	5450-60
Kerb close		5410-20
Open int.	20,601	
Total daily turnover	4,749	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1016-17	1039-40
Previous	1029-30	1053-54
High/low		1045/1036
AM Official	1022.5-23.0	1044.5-45.0
Kerb close		1037-8
Open int.	100,126	
Total daily turnover	15,281	

■ COPPER, grade A ($ per tonne)

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Feb	379.5	-0.4	380.2	379.6	321	72
Mar	379.6	-0.5	379.8	379.5	2	-

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	108.45	-0.10	108.60	108.25	571	156
May	110.00	-0.15	110.10	109.80	1,918	135

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	2050	+25	2050	2030	422	82
Apr	2040	+20	2045	2025	1,486	94
Jul	1778	+8	1785	1775	895	18
Oct	1777	+8	1780	1775	765	11
Jan	1765	-	-	-	110	-
Total					3,932	205

	Close	Prev
BFI	2023	2019

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	1047	+2	1047	1042	24,363	736
May	1039	+2	1042	1034	23,121	1,659

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	100.65	+1.45	100.75	98.50	8,098	1,883
May	104.60	+1.30	104.95	102.60	10,101	2,140
Jul	108.25	+1.00	109.00	106.90	3,537	285
Sep	112.25	+0.85	113.00	110.90	2,999	190
Nov	111.50	-0.05	111.55	111.50	2,039	60
Jan	113.50	+1.00	113.50	112.00	1,145	148
Total					28,029	4,706

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Apr	73.575	+0.550	73.600	72.400	350	349
Jun	67.100	+0.400	67.150	66.400	43,818	7,115

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	45.300	+0.350	45.375	44.650	14,196	3,343
Aug	43.450	+0.200	43.650	43.150	7,821	1,442
Oct	40.475	+0.275	40.550	40.050	2,546	207
Dec	40.676	-0.100	40.875	40.650	2,366	393
Feb	41.575	-0.175	41.650	41.400	798	17
Total					28,868	6,732

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	43.775	-0.350	44.350	43.150	226	156
Mar	43.425	-0.050	43.775	42.800	2,499	1,761
May	44.300	-	44.650	43.650	3,810	1,260
Jul	44.625	+0.075	44.750	43.900	1,613	332
Aug	41.900	+0.225	42.000	41.500	472	52
Feb	50.900	-0.100	51.200	50.900	71	21
Total					8,650	3,584

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	May	Aug	May	Aug
1800	128	176	59	99
1850	101	151	82	122
1900	78	128	107	148
■ COPPER (Grade A) LME	May	Aug	May	Aug
2700	179	162	30	85
2800	113	111	64	131
2900	66	74	114	190
■ COFFEE LCE	May	Jul	May	Jul
2700	352	393	48	138
2750	315	363	62	158
2800	280	334	77	179
■ COCOA LCE	May	Jul	May	Jul
1025	51	73	37	54
1050	38	61	49	67
1075	29	51	65	82
■ BRENT CRUDE IPE	Apr	Jul	Apr	Jul
1650	48	77	9	66
1700	18	53	31	92
1750	5	36	67	127

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Apr)		+or-
Dubai	$16.44-6.47z	-0.120
Brent Blend (dated)	$17.07-7.09	
Brent Blend (Apr)	$16.87-6.89	-0.070
W.T.I. (1pm est)	$18.51-8.53z	-0.095
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$173-175	
Gas Oil	$149-150	+1
Heavy Fuel Oil	$107-109	
Naphtha	$169-171	-0.5
Jet fuel	$168-170	+1
Diesel	$153-154	+1
Petroleum Argus. Tel. London (071) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$379.00	+0.05
Silver (per troy oz)♣	481.5c	+7.5
Platinum (per troy oz.)	$417.00	+1.25
Palladium (per troy oz.)	$157.00	-0.25
Copper (US prod.)	138.0c	-1.0
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	13.95m	-0.03
Tin (New York)	252.50c	-7.00
Cattle (live weight)†	120.94p	+0.89*
Sheep (live weight)†♠	122.17p	+1.45*
Pigs (live weight)	84.22p	+1.20*
Lon. day sugar (raw)	$358.0	-3.1
Lon. day sugar (wte)	$404.0	-2.0
Tate & Lyle export	£340.0	-3.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£141.0	
Wheat (US Dark North)	£165.0	
Rubber (Mar)♥	112.5p	-1.0
Rubber (Apr)♥	112.5p	-1.0
Rubber (KL RSS No1)	441.5m	-1.0
Coconut Oil (Phil)§	$625.0y	-5.0
Palm Oil (Malay.)§	$667.5t	-2.5
Copra (Phil)§	$416.0y	
Soyabeans (US)	£169.0q	
Cotton Outlook'A' index	104.85c	+1.00
Wooltops (64s Super)	532p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Apr. t Mar. y Mar/Apr. q Feb/Apr ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week © Prices are for previous day.

Wool
Chinese demand kept Australian auctions firm to dearer for most of the week but the close yesterday was slightly easier overall. Crossbreds tended dearer throughout, and New Zealand crossbreds also sold well, but merinos levelled out and finer categories were 10 to 15 cents cheaper. European traders generally continue to find it very difficult to pass on the latest wool price rises, or indeed those established earlier during 1994. The same applies in Japan, where retailers are also said to be determined in their resistance. Margins in the manufacturing industry therefore remain narrow and difficult to maintain. The Eastern market indicator in Australia closed at 837 cents a kg., after touching 841, and just one cent up on a week before. The NZ indicator was 7 cents up at 580.

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Feb 23	Feb 22	month ago	year ago
2288.6	2294.1	2279.0	1793.2

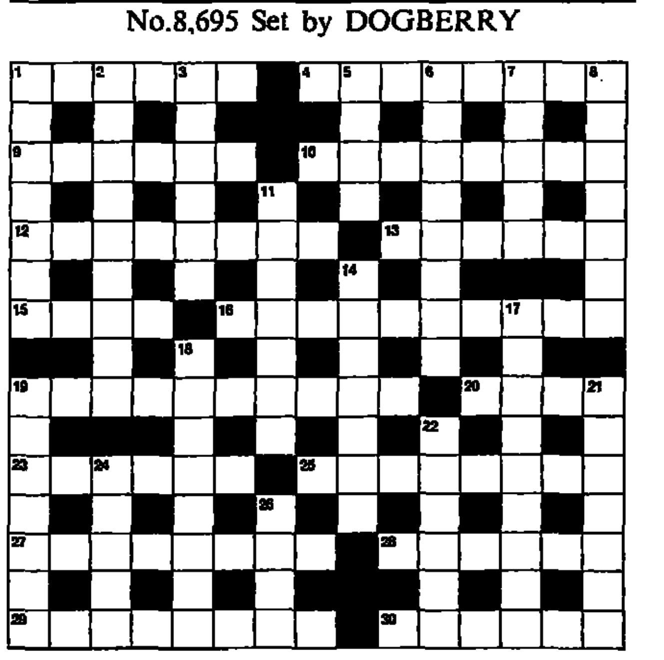
■ CRB Futures (Base: 1967=100)

Feb 22	Feb 21	month ago	year ago
235.63	235.43	235.11	-

JOTTER PAD

CROSSWORD

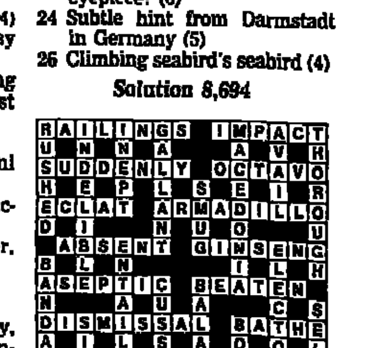
No.8,695 Set by DOGBERRY



ACROSS
1 Extra-large shock absorber (6)
4 Sailors in hold not requiring bottle-opener (8)
9 Queen entering parliament to cause an upset (6)
10 Reports on summit in imaginary language (8)
12 Bullish simpleton's contradiction in terms? (8)
13 Allow juice to turn pale (6)
15 Hold the fort (4)
16 Experimenter dissecting mice with spirit (10)
19 Evil 9 converted in mother of a thousand years (10)
20 Expressed contempt for tiff (4)
23 Inform of end of epilepsy attack on returning (6)
25 One who approves taking witch home to south-east Romania (8)
27 Plant bird on island (8)
28 Losing her made Cherubini have nightmares (6)
29 Menace redefined as benefactor (8)
30 Life as professional minder, full of energy (6)

DOWN
1 Basis of badger eating 3 (7)
2 Offenbach's Underworld, say, played by angry complainants? (5,4)
3 Literary figure taking fish up hill (6)
5 She's about to sign (4)
6 City still over the moon (8)
7 Negotiate bonus (5)
8 Baby fish for toasting? (7)
11 Explosive seizing yellow compiler in anguish (7)
14 Stimulating, as in a glass of beer (7)
17 East German in dirty trick (9)
18 Necessarily free crop rotation (8)
19 Friar receiving Greek letter, at least (7)
21 Dog to stray into line (7)
22 More sentimental-sounding eyepiece? (6)
24 Subtle hint from Darmstadt in Germany (5)
26 Climbing seabird's seabird (4)

Solution 8,694



INTERNATIONAL CAPITAL MARKETS

Treasuries higher on hopes rates have peaked

By Lisa Bransten in New York and Graham Bowley in London

US Treasury prices continued the surge begun on Wednesday as traders continued to bet inflationary pressures are waning and the Federal Reserve might not raise interest rates again in this business cycle.

At midday, the benchmark 30-year Treasury was up 3/32 at 101 21/32 to yield 7.491 per cent, the first time its yield has fallen below 7.5 per cent since early September. At the short end, the two-year note gained 3/32 to 100 3/32, yielding 6.807 per cent.

Mr Alan Greenspan, chairman of the Fed, sparked Wednesday's upturn by telling the Senate Banking Committee he expected growth this year to be slower than last. Yesterday, he reiterated those statements in testimony before the House Banking Committee.

Such comments have a direct effect on short-term securities, where interest rate rises tend to cause price instability, and an indirect effect on longer-term bonds, which lose their value in inflationary periods.

The market managed mostly to shake off declines in the currency market, although a weak dollar tends to deter foreign investment in US securities.

Early in the morning, the dollar was above its recent lows against the D-Mark and the Japanese yen after the Labor Department released unexpectedly high figures on initial unemployment claims.

Later in the morning, however, the currency weakened after Mr Greenspan gave no indication that the Fed might raise interest rates.

The spread between the yields on two-year and 30-year bonds continued to steepen, moving to 68 basis points from 66 points late on Wednesday. Steepening usually indicates the market expects increased economic activity, but analysts attributed the change to traders unwinding positions made when they were expecting another rise in interest rates.

GOVERNMENT BONDS

■ The continued rally in the US pulled European government bond markets higher.

Trading activity picked up markedly, dealers said, although it was restricted largely to the futures exchanges, with cash markets remaining subdued.

"The impetus came from the US but there is some real money coming back into the European market with optimism that maybe the economic cycle in the US has turned," said one trader in London.

Europe opened firmer after the surge in US Treasuries on Wednesday following Mr Greenspan's comments.

The gains were extended after favourable German monetary data and when Treasuries opened strongly later in the European session to provide further upwards momentum.

"The better mood in the US is providing the background for European markets to probe higher," said one dealer.

■ UK gilts continued Wednesday's surge, with the yield spread over German bunds narrowing to 136 basis points from 139 points at the previous close.

Relative calm on the foreign exchanges, with sterling gaining ground against the D-Mark, helped support prices.

"Increased currency stability will encourage overseas investors in particular to come back into the market," said Mr Jeremy Stretch of NatWest Markets. The long gilt future on Liffe was up 19/32 to 102 1/32 in late trading.

■ Italian government bonds lagged the rest of Europe, with the market forced to digest the implications of the Dini administration's mini-budget.

The decision by IBCA, the European rating agency, to downgrade Italy's foreign currency obligation rating due to "political uncertainties" surrounding the country's fiscal situation had a small negative effect on prices, dealers said.

The yield spread over bunds widened to 525 basis points from 520 points at the previous close. The Italian March futures contract on Liffe settled at 98.73, up 0.40.

■ The German March futures contract on Liffe rose to 91.00 late in the session, up 0.60, boosted by strength in the US and M3 data showing an easing in monetary growth.

The breaching of key technical resistant levels around 90.90 provided further support, dealers said.

■ French government bonds rallied in line with Germany and the US, correcting recent sessions when political worries have weighed on prices.

Five-year maturities were particularly well bid, said Ms Nathalie Fillet, bond strategist at Paribas in Paris.

The March futures contract on Matif settled at 112.16, up 0.70.

UK contracts for difference see rising demand

By Richard Lapper

Continuing controversy surrounding the "contracts for differences" transaction between Trafalgar House and Swiss Bank Corporation has highlighted a growing area of the over-the-counter derivatives market in the UK.

DERIVATIVE INSTRUMENTS

Since their introduction some four years ago, the popularity of the contract for differences, or CFD, has grown both for hedging and portfolio management purposes.

The contract effectively creates a synthetic exposure to an equity or group of equities. It allows investors to achieve the same effect as they would either by taking short positions, a trading strategy which is common in both the US and other European markets or, alternatively, by "gearing up" long positions.

CFDs were created in the face of regulations which prevent UK investors from borrowing stock in order to take short positions.

"London was missing out on a lot of business because people couldn't take short positions," explained Mr Michael Heath, a director of Smith New Court. "Investors want to capitalise on the movement of stock prices. Most of the demand we see is for hedging by market professionals," he added.

In the UK, only market-makers in individual stocks are allowed to borrow the stock to go short and deals must be conducted through money brokers approved by the Bank of England.

Short CFDs – which account for between 60 and 80 per cent of all deals – also allow short traders to avoid liability to stamp duty, which is generally charged on stock purchased to cover short positions.

Typical CFD trades involve notional trades in blocks of at least 100,000 shares, according to Mr John Millers, a specialist with Société Générale, which entered the market last year. Contract values range from £300,000 to £1.5m, he said.

Trafalgar House entered into its "long" CFD with Swiss Bank Corporation to offset some of its costs in mounting a bid for Northern Electric. The deal gave it exposure to potential upward movement in the shares of electricity companies.

In the long CFD, the investor pays an initial margin – normally 10 per cent of the market value of the shares covered by the contract – to the securities firm acting as counterparty. The investor then pays interest on the monies advanced, typically at a rate of Libor plus 100 basis points.

In the short version of the transaction, investors pay the counterparty an initial margin amounting to 5 per cent of the value of shares figuring in the deal. They then receive interest – on an amount equal to the market value of the shares plus the 5 per cent initial margin – typically at a rate of Libor less 200 basis points.

The contracts are marked to market at least weekly, with variation margin charged as the value of the contract moves up or down. The contracts have no expiry date and closure is entirely at the discretion of the investor.

According to Mr David Baker, head of equity derivatives marketing, at Société Générale, one of the big reasons for the popularity of the product is the clarity of the pricing mechanism compared with many other derivatives contracts.

Swap spreads tighten sharply on comments by Greenspan

By Martin Brice

Dollar swap spreads narrowed sharply yesterday after investors had digested comments by Mr Alan Greenspan, chairman of the US Federal Reserve Board.

"He said the US economy was slowing. The market now anticipates that the interest rate cycle has peaked in the US," one syndicate manager said.

The spread in the two-year sector tightened by 12 basis points, and in the three-year sector by 9 basis points. Such a movement is extremely rare.

The narrowing of spreads makes swapping liabilities very difficult, which is likely to make dollar bond issuance increasingly unattractive to borrowers, who have recently turned to the international loan market for cheap funds.

Dollar issuance in the euromarkets remained largely on hold yesterday, although the US Student Loan Marketing Association (Sallie Mae) brought a $750m three-year deal with a 7 per cent coupon, handled by Merrill Lynch as a block trade.

INTERNATIONAL BONDS

The decision by Merrill to sell the bonds without a syndicate follows the $500m. block trade for Sallie Mae last week by Nomura, which raised eyebrows at other houses by handling the deal for free. Merrill yesterday said its fee was 15 basis points, against the 18.75 basis points it would have been on a syndicated deal.

Merrill Lynch was the top book-runner of Eurobonds last year, with 140 issues and a market share of almost 9 per cent, according to Euromoney Bondware.

"We didn't need anybody else to help us. We have the size to give the issuer a broad placement. There is a finite number of institutional investors in the world and we cover most of them," a Merrill official said.

The bank said the bonds were all sold yesterday, claiming the deal was successful partly because investors knew there would be no compromise on price and no advantage in waiting for the bonds to fall before buying them.

The deal was sold 44 per cent in the US, 20 per cent in Japan, 21 per cent elsewhere in Asia, and 15 per cent in Europe.

Other new issues were dominated by banks, sovereigns, supranational entities and government agencies.

Sallie Mae also brought an unlisted A$400m, zero-coupon two-year deal at a deep discount via Daiwa.

A corporate name made a rare appearance when Toyota Motor Credit Corp raised Fl 250m. Its three-year deal carrying a coupon of 6.75 per cent came via ABN Amro Hoare Govett, which said a lack of three-year paper combined with a swap opportunity allowed TMCC to achieve its funding target. Other houses said this was likely to be well below Libor.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Student Loan Mktg. Assoc.★	750	7.00#	99.81	Mar.1998	0.15	+17(7¼%-98)	Merrill Lynch International
GECC(a)	100	8.00	101.88R	Jan.1997	0.125R	+5(6⅞%-97)	UBS
Bank of Tokyo (Curacao)(b)‡	50	(b1)	100.325	Mar.2005	0.325	-	Bank of Tokyo Capital Mkts.
YEN							
Sakura Fin.(Cayman),T.1(c)★	20bn	5.00	100.25	Jun.2005	0.25	-	Nomura/Sakura Finance Intl.
Sakura Fin.(Cayman),T.2(c)★	10bn	5.00	100.25	Jun.2005	0.25	-	Merrill/Sakura Finance Intl.
Cofiri International(d)★	11bn	5.50	100.48	Mar.2015	0.50	-	Yamaichi Intl.(Europe)
ITALIAN LIRE							
Rabobank Nederland	150bn	11.00	101.125	Mar.1997	1.125	-	Swiss Bank Corp.
Helaba Finance(e)	100bn	11.00	100.665	Mar.1998	1.375	-	Banca Roma/Credito Italiano
Republic of Austria(f)	100bn	11.00	101.175	Dec.1997	1.375	-	JP Morgan Securities
CANADIAN DOLLARS							
BCE(g)	173	9.95	102.00	Mar.2000	0.05	-	Barclays de Zoete Wedd
GUILDERS							
Toyota Motor Credit Corp.	250	6.75	99.77R	Mar.1998	0.1875R	+35(6⅝%-97)	ABN Amro Hoare Govett
ECUS							
Council of Europe(h)	200	6.875	99.966R	Mar.1996	0.10R	+10(8%-96)	Barclays de Zoete Wedd
AUSTRALIAN DOLLARS							
Student Loan Mktg. Assoc.★	400	zero	79.80	Sep.1997	0.15	-	Daiwa Europe
Australian Natl.Railways Comm.	100	9.75	101.025	Mar.1998	1.50	-	Hambros Bank
PESETAS							
Kingdom of Sweden	15bn	11.20	100.852	Mar.1998	1.00	-	Bco. Santander de Negocios

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $200m. Plus 45 days accrued. b) Callable on 9/3/98 at par. b1) 6-mth Libor +50bp to 9/3/98 and 9%pa fxd thereafter. c) Callable on 7/6/00 at par. Short 1st coupon. d) Callable on coupon dates from 16/3/05 at par. e) Issue launched 14/2/95 was increased to L300bn. f) Fungible with L300bn. Plus 96 days accrued. g) Long 1st coupon. h) Spread relates to UK Ecu bond.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	92.8900	+0.170	10.18	10.14	10.30
Austria		7.500	01/05	98.9900	+0.220	7.65	7.64	7.74
Belgium		7.750	10/04	96.8600	+0.560	8.22	8.30	8.46
Canada *		9.000	12/04	101.7000	+0.850	8.73	8.96	9.34
Denmark		7.000	12/04	88.4700	+0.700	8.80	8.88	9.06
France	BTAN	8.000	05/98	101.0900	+0.050	7.59	7.60	7.27
	OAT	7.500	04/05	96.7100	+0.730	7.97	8.00	8.18
Germany Bund		7.375	01/05	100.0400	+0.580	7.36	7.41	7.53
Ireland		6.250	10/04	83.5000	+0.450	8.80†	8.79	8.78
Italy		9.500	01/05	84.7900	+0.370	12.19	12.00	11.91
Japan	No 119	4.800	06/99	103.8020	-	3.80	3.83	3.86
	No 164	4.100	12/03	97.9710	+0.556	4.42	4.58	4.64
Netherlands		7.250	10/04	98.2700	+0.550	7.50	7.53	7.68
Portugal		8.875	01/04	85.1500	+0.050	11.65	11.65	11.64
Spain		10.000	02/05	91.0600	+0.750	11.53	11.56	11.88
Sweden		6.000	02/05	72.1980	+0.432	10.67	10.72	11.06
UK Gilts		6.000	08/99	91-01	+13/32	8.47	8.52	8.57
		8.500	12/05	99-21	+23/32	8.55	8.62	8.63
		9.000	10/08	103-21	+27/32	8.54	8.60	8.63
US Treasury *		7.500	02/05	101-22	+33/32	7.26	7.42	7.66
		7.625	02/25	101-15	+36/32	7.50	7.58	7.77
ECU (French Govt)		6.000	04/04	84.9700	+0.620	8.42	8.44	8.62

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime

		Treasury Bills and Bond Yields			
		One month	5.42	Two year	6.81
Prime rate	9	Two month	5.86	Three year	6.92
Broker loan rate	8½	Three month	5.83	Five year	7.08
Fed.funds	5 15/16	Six month	6.14	10-year	7.25
Fed.funds at intervention	-	One year	6.43	30-year	7.50

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.86	112.16	+0.70	112.22	111.78	177,458	141,200
Jun	111.92	111.32	+0.68	111.36	111.02	7,125	22,575
Sep	110.36	110.62	+0.64	110.42	110.34	354	3,912

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
110	-	-	-	-	0.75	-
111	1.16	1.43	-	-	1.15	-
112	0.16	0.88	1.10	-	1.60	-
113	-	0.52	-	-	-	-
114	-	0.25	-	-	-	-

Est. vol. total, Calls 17,597 Puts 22,646 . Previous day's open int., Calls 207,798 Puts 231,531.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	90.68	91.06	+0.66	91.08	90.67	169473	181840
Jun	90.18	90.56	+0.67	90.58	90.17	13363	38414
Sep	90.00	90.05	+0.67	90.00	90.00	88	103

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
9050	0.56	0.77	0.96	1.07	0.51	0.72	0.91	1.52
9100	0.33	0.54	0.73	0.86	0.78	0.99	1.18	1.81
9150	0.19	0.37	0.54	0.69	1.14	1.32	1.49	2.14

Est. vol. total, Calls 26346 Puts 7818. Previous day's open int., Calls 97416 Puts 85642

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.70	98.73	+0.40	99.05	98.56	47260	51253
Jun	97.80	97.68	+0.38	98.00	97.60	2114	5818

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
9750	1.83	2.12	1.65	2.94
9800	1.57	1.91	1.89	3.23
9850	1.33	1.72	2.15	3.54

Est. vol. total, Calls 942 Puts 790. Previous day's open int., Calls 12579 Puts 9854

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	85.15	85.44	+0.70	85.45	85.12	50,421	49,469
Jun	84.82	84.94	+0.77	85.00	84.82	1,113	2,248

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	101-27	102-07	+0-26	102-12	101-24	94675	84031
Jun	102-01	102-15	+0-26	102-19	102-00	13846	12545

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Apr	CALLS May	CALLS Jun	CALLS Sep	PUTS Apr	PUTS May	PUTS Jun	PUTS Sep
102	1-07	1-30	1-51	2-46	0-41	1-00	1-21	2-02
103	0-38	0-62	1-17	2-14	1-08	1-32	1-51	2-34
104	0-18	0-38	0-55	1-50	1-52	2-08	2-25	3-06

Est. vol. total, Calls 4270 Puts 3330. Previous day's open int., Calls 14730 Puts 14119

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	81.78	82.12	+0.62	82.12	81.76	2,294	6,697
Jun	-	81.92	+0.62	-	-	-	1,658

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	103-07	103-13	+0-07	103-21	103-02	427,130	295,849
Jun	102-22	102-28	+0-06	103-05	102-18	22,821	66,961
Sep	102-07	102-14	+0-05	102-23	102-07	707	8,622

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	110.19			110.48	110.19	2449	0
Jun	109.37			109.59	109.30	5397	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Feb 23	Day's change %	Wed Feb 22	Accrued interest	xd adj. ytd
1 Up to 5 years (23)	118.69	+0.29	118.24	1.10	2.53
2 5-15 years (22)	139.85	+0.57	139.06	1.92	2.08
3 Over 15 years (9)	155.14	+0.80	153.92	0.44	4.05
4 Irredeemables (6)	178.30	+1.11	177.45	2.29	1.12
5 All stocks (60)	136.41	+0.53	135.70	1.42	2.56
Index-linked					
6 Up to 5 years (2)	189.15	+0.19	188.79	0.58	1.45
7 Over 5 years (11)	174.71	+0.33	174.13	0.73	0.80
8 All stocks (13)	175.30	+0.32	174.75	0.72	0.86

	Low coupon yield Feb 23	Low Feb 22	Low Yr. ago	Medium coupon yield Feb 23	Medium Feb 22	Medium Yr. ago	High coupon yield Feb 23	High Feb 22	High Yr. ago
5 yrs	8.52	8.63	6.49	8.55	8.65	6.70	8.70	8.81	6.82
15 yrs	8.46	8.54	7.14	8.57	8.66	7.28	8.78	8.86	7.50
20 yrs	8.43	8.51	7.25	8.67	8.66	7.29	8.68	8.76	7.51
Irred.†	8.50	8.60	7.34						

	Inflation 5% Feb 23	Inflation 5% Feb 22	Inflation 5% Yr. ago	Inflation 10% Feb 23	Inflation 10% Feb 22	Inflation 10% Yr. ago
Up to 5 yrs	3.63	3.72	2.52	2.26	2.33	1.50
Over 5 yrs	3.86	3.89	3.29	3.87	3.89	3.11

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Feb 23	Feb 22	Feb 21	Feb 20	Feb 17	Yr ago	High*	Low*
Govt. Secs. (UK)	91.40	90.86	90.67	90.69	91.06	100.94	107.04	89.54
Fixed Interest	109.82	109.56	109.69	109.82	109.74	124.29	133.87	106.50

* for 1994/5. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Feb 22	Feb 21	Feb 20	Feb 17	Feb 16
Gilt Edged bargains	120.2	95.0	77.0	79.1	104.6
5-day average	95.2	102.6	122.6	125.7	127.5

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	1994/95 High	1994/95 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or –	1994/95 High	1994/95 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on February 23

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES

	Issued	Bid	Offer	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS

	Issued	Conv. Price	Bid	Offer	Prem.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

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CURRENCIES AND MONEY

MARKETS REPORT

Dollar marks time as markets ponder Greenspan

The dollar finished slightly firmer on the foreign exchanges yesterday as some investors who had been holding D-Marks chose to take profits, *writes Philip Gawith.*

Trading was dominated by markets trying to interpret the Humphrey-Hawkins testimony of Mr Alan Greenspan, the chairman of the Federal Reserve. Interest rate and stock markets rallied sharply on hints that the US may be nearing the end of the process of monetary tightening, but the foreign exchanges seemed less sure of what the implications might be.

The dollar closed in London at DM1.4727, from DM1.4679. Against the yen it finished at Y96.835 from Y96.975.

In Europe the D-Mark finished slightly lower against most currencies. The Lira closed at L1,099, from L1,105. Although the Spanish peseta finished firmer at Pta87.54, it later fell sharply below Pta88, on fears about Spanish debt, after a ratings agency warned of possible default by regional governments.

Sterling rallied more than a pfennig, to finish at DM2.3437, from DM2.3299. Against the dollar it finished slightly firmer at $1.5915, from $1.5873. The trade weighted index rose to 87.4 from 87.1.

In South Africa, meanwhile, frenzied speculation about the possible abolition of the financial rand saw the discount between it and the commercial rand sink to 3.79 per cent at one stage, before easing back to close at 6.5 per cent.

■ *The largest moves came in* the interest rate futures markets, with prices rallying sharply following Mr Greenspan's comments on Wednesday. The June eurodollar contract finished the day 21 basis points higher, at 93.50. This bullish tone spilled over into short sterling, where the June contract finished at 92.48, from 92.38, and the euromark contract, which closed at 94.52 from 94.41.

Mr Richard Phillips, analyst at brokers GNI, commented: "It has all happened on the back of Mr Greenspan's comments. The markets have gone absolutely beserk."

"People have suddenly come to the realisation that these rates might not be going as far or as fast as they had thought," said Mr Phillips.

■ *The outlook for German* interest rates improved with the release of the January M3 growth figure, which was better than expected. Analysts said it delayed the moment when the Bundesbank would need to raise rates.

Ms Alison Cottrell, analyst at Kidder, Peabody in London, said the Bundesbank was getting the markets to tighten monetary policy for them. This was taking place "passively" through the stronger D-Mark.

She predicted that the repo rate would stay firm until the third quarter, with the discount rate likely to stay unchanged throughout the year.

Ms Cottrell said intervention from the Bundesbank to curb D-Mark strength was unlikely unless, for example, the dollar were to fall sharply to the DM1.40 level. "If the speed of the dollar's fall destabilised treasuries, this would feed quickly into bunds. The Bundesbank does not care about specific exchange rate levels, but it certainly cares about the performance of bunds."

The level of long term interest rates is a key determinant of the cost of corporate and household borrowing in Germany.

At the moment, this scenario looks unlikely as the dollar and the US bond market have become decoupled.

To a large extent, said Ms Cottrell, the problem of the strong D-Mark is also out of the Bundesbank's hands. Insofar as Mexico is a problem for the dollar, and domestic politics the cause of currency weakness in various European countries, an easing of German monetary policy is unlikely to be the appropriate solution.

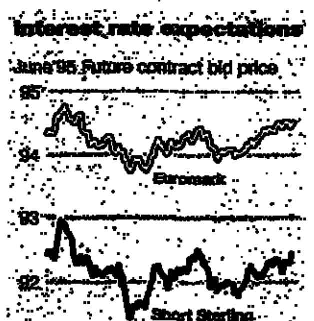
Ms Cottrell said general attitudes to risk were also supporting the D-Mark. "When risks become more important than returns, and you are in an environment where people don't have strong asset allocation views, that tells you to put your money into D-Marks."

■ *Overnight money rose as high as 10 per cent when the* Bank of England waited until after lunch to provide liquidity to UK money market. The Bank later cleared a £1.1bn shortage with £380m assistance at established rates, and late assistance of £740m.

Cash market rates remained easy, with three month *LIBOR* unchanged at 6⅛ per cent.

Interest rate expectations

June'95 Future contract bid price



Source: FT Graphite

■ **Pound in New York**

Feb 23	Latest	Prev. close
£ spot	1.5920	1.5895
1 mth	1.5914	1.5889
3 mth	1.5919	1.5881
1 yr	1.5850	1.5769

■ **OTHER CURRENCIES**

Feb 23	£	$
Hungary	181.151 - 182.050	113.860 - 114.380
Iran	2761.00 - 2764.00	1748.00 - 1750.00
Kuwait	0.4732 - 0.4739	0.2974 - 0.2977
Poland	3.8439 - 3.8468	2.4160 - 2.4165
Russia	6958.50 - 6961.20	4371.00 - 4374.00
U.A.E.	5.8431 - 5.8472	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Feb 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. index
Europe													
Austria	(Sch)	16.4887	+0.0843	780 - 953	16.5280	16.4441	16.4742	0.9	16.4405	1.1	-	-	106.5
Belgium	(BFr)	48.2818	+0.2643	542 - 094	48.3800	48.0590	48.2318	1.2	48.1168	1.4	47.5768	1.5	108.4
Denmark	(DKr)	9.2848	+0.0465	598 - 698	9.2903	9.2330	9.2589	0.6	9.2483	0.7	9.1884	0.8	107.4
Finland	(FM)	7.2165	+0.0155	093 - 237	7.2560	7.2010	-	-	-	-	-	-	85.5
France	(FFr)	8.1840	+0.0342	801 - 879	8.2027	8.1614	8.1773	1.0	8.1666	0.9	8.103	1.0	107.9
Germany	(DM)	2.3437	+0.0138	424 - 449	2.3499	2.3347	2.341	1.4	2.3338	1.7	2.2984	1.9	110.9
Greece	(Dr)	370.728	-0.609	544 - 913	371.470	368.896	-	-	-	-	-	-	69.0
Ireland	(I£)	1.0047	+0.0011	042 - 051	1.0058	1.0011	1.0041	0.7	1.0034	0.5	1.0018	0.3	97.3
Italy	(L)	2577.79	+4.82	662 - 896	2585.88	2568.40	2581.64	-1.8	2592.14	-2.2	2640.84	-2.4	71.3
Luxembourg	(LFr)	48.2818	+0.2643	542 - 094	48.3800	48.0590	48.2318	1.2	48.1168	1.4	47.5768	1.5	108.4
Netherlands	(Fl)	2.6283	+0.015	267 - 298	2.6336	2.6176	2.6251	1.4	2.618	1.6	2.5791	1.9	108.3
Norway	(NKr)	10.3228	+0.0572	183 - 273	10.3383	10.2748	10.3215	0.2	10.3197	0.1	10.3074	0.1	96.6
Portugal	(Es)	242.919	+1.07	771 - 067	243.576	242.289	243.519	-3.0	245.169	-3.7	-	-	96.2
Spain	(Pta)	205.170	+0.232	032 - 307	205.649	204.869	205.48	-1.8	206.2	-2.0	209.7	-2.2	78.2
Sweden	(SKr)	11.5656	+0.0024	543 - 768	11.6410	11.5543	11.5709	-0.5	11.6071	-1.4	11.6926	-1.1	80.9
Switzerland	(SFr)	1.9935	+0.0182	923 - 947	1.9979	1.9827	1.989	2.7	1.9798	2.7	1.9323	3.1	108.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	87.4
Ecu	-	1.2518	+0.005	509 - 526	1.2557	1.2484	1.2512	0.6	1.25	0.6	1.2424	0.8	-
SDR†	-	1.066000	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5912	+0.0037	907 - 917	1.5957	1.5867	-	-	-	-	-	-	-
Brazil	(Cr)	1.3448	+0.0012	412 - 483	1.3483	1.3409	-	-	-	-	-	-	-
Canada	(C$)	2.2194	+0.003	183 - 204	2.2254	2.2128	2.2228	-1.8	2.2299	-1.9	2.2414	-1.0	82.0
Mexico	(New Peso)	8.9519	-0.1986	096 - 942	9.3727	8.9096	-	-	-	-	-	-	-
USA	($)	1.5915	+0.0042	910 - 919	1.5960	1.5865	1.5909	0.5	1.5896	0.5	1.578	0.8	93.8
Pacific/Middle East/Africa													
Australia	(A$)	2.1596	+0.0075	582 - 609	2.1610	2.1582	2.1614	-1.0	2.168	-1.6	2.191	-1.5	84.2
Hong Kong	(HK$)	12.3038	+0.0335	995 - 081	12.3387	12.2656	12.3028	0.1	12.3293	-0.8	12.2281	0.6	-
India	(Rs)	49.9377	+0.1397	176 - 578	50.0740	49.7870	-	-	-	-	-	-	-
Israel	(Shk)	4.7636	+0.0018	582 - 690	4.7768	4.7458	-	-	-	-	-	-	-
Japan	(Y)	154.108	+0.184	025 - 191	154.580	153.910	153.578	4.1	152.443	4.3	146.446	5.0	150.6
Malaysia	(M$)	4.0643	+0.0107	629 - 657	4.0754	4.0532	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5147	+0.0141	126 - 168	2.5170	2.5134	2.5187	-1.9	2.5277	-2.1	2.5568	-1.7	97.1
Philippines	(Peso)	40.4229	+0.3448	319 - 139	40.5139	40.3319	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9685	+0.0157	666 - 704	5.9853	5.9502	-	-	-	-	-	-	-
Singapore	(S$)	2.3122	+0.0056	111 - 132	2.3182	2.3058	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.7352	+0.0334	276 - 428	5.8234	5.7010	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.1303	+0.0511	126 - 479	6.1479	6.0538	-	-	-	-	-	-	-
South Korea	(Won)	1254.78	+2.44	434 - 521	1258.29	1250.96	-	-	-	-	-	-	-
Taiwan	(T$)	41.6507	+0.1092	372 - 641	42.0690	41.8225	-	-	-	-	-	-	-
Thailand	(Bt)	39.6908	+0.0968	636 - 179	39.7880	39.5640	-	-	-	-	-	-	-

†SDR rates for Feb 22. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.3595	+0.032	570 - 620	10.3910	10.3430	10.349	1.2	10.327	1.3	10.2085	1.5	106.3
Belgium	(BFr)	30.3383	+0.0863	295 - 470	30.4070	30.2175	30.3283	0.4	30.2958	0.6	30.2083	0.4	108.1
Denmark	(DKr)	5.8215	+0.0139	201 - 228	5.8379	5.8084	5.8203	0.3	5.819	0.2	5.8265	-0.1	106.6
Finland	(FM)	4.5346	-0.0022	313 - 378	4.5589	4.5246	4.5319	0.7	4.5276	0.6	4.5171	0.4	84.4
France	(FFr)	5.1425	+0.008	415 - 435	5.1550	5.1320	5.1407	0.4	5.1395	0.2	5.143	0.0	107.3
Germany	(DM)	1.4727	+0.0048	723 - 730	1.4770	1.4685	1.4715	1.0	1.4698	1.1	1.4587	1.0	110.3
Greece	(Dr)	232.950	-1	900 - 000	233.550	232.100	235.35	-12.4	239.7	-11.6	257.95	-10.7	68.4
Ireland	(I£)	1.5841	+0.0025	839 - 843	1.5894	1.5813	1.5847	-0.4	1.5835	0.2	1.5809	0.2	-
Italy	(L)	1619.78	-1.37	950 - 005	1622.15	1613.55	1623.53	-2.8	1632.58	-3.2	1679.28	-3.7	70.9
Luxembourg	(LFr)	30.3383	+0.0863	295 - 470	30.4070	30.2175	30.3283	0.4	30.2958	0.6	30.2083	0.4	108.1
Netherlands	(Fl)	1.6515	+0.0051	510 - 520	1.6556	1.6460	1.6502	0.9	1.6474	1.0	1.6367	0.9	107.9
Norway	(NKr)	6.4864	+0.0188	854 - 874	6.5035	6.4668	6.4806	1.1	6.4749	0.7	6.4439	0.7	97.8
Portugal	(Es)	152.640	+0.27	590 - 690	153.160	152.290	153.035	-3.1	153.965	-3.5	158.215	-3.7	96.3
Spain	(Pta)	128.920	-0.195	870 - 970	129.430	128.700	128.165	-2.3	129.725	-2.5	132.72	-2.9	78.5
Sweden	(SKr)	7.2673	-0.0177	623 - 723	7.3320	7.2623	7.2775	-1.7	7.2993	-1.8	7.3908	-1.7	79.9
Switzerland	(SFr)	1.2526	+0.0081	522 - 530	1.2560	1.2470	1.2502	2.3	1.2455	2.3	1.225	2.2	106.5
UK	(£)	1.5915	+0.0042	910 - 919	1.5960	1.5865	1.5909	0.5	1.5896	0.5	1.578	0.8	86.6
Ecu	-	1.2714	-0.0017	709 - 719	1.2746	1.2672	1.2714	0.0	1.2715	0.0	1.2736	-0.2	-
SDR†	-	0.66980	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-0.0003	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(Cr)	0.8450	-0.0015	430 - 470	0.8470	0.8430	-	-	-	-	-	-	-
Canada	(C$)	1.3946	-0.0018	943 - 948	1.3965	1.3918	1.3973	-2.3	1.403	-2.4	1.4186	-1.7	80.7
Mexico	(New Peso)	5.6250	-0.14	000 - 500	5.6500	5.6000	5.6258	-0.2	5.6262	-0.1	5.6276	0.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3569	+0.0012	565 - 574	1.3607	1.3540	1.3587	-1.6	1.3633	-1.9	1.3881	-2.3	85.4
Hong Kong	(HK$)	7.7312	+0.0007	307 - 317	7.7320	7.7305	7.7324	-0.2	7.7334	-0.1	7.7382	-0.1	-
India	(Rs)	31.3788	+0.005	750 - 825	31.3850	31.3750	31.4588	-3.1	31.7038	-4.1	-	-	-
Israel	(Shk)	2.9933	-0.0068	907 - 958	3.0055	2.9833	-	-	-	-	-	-	-
Japan	(Y)	96.8350	-0.14	100 - 600	97.2000	96.6700	96.535	3.7	95.895	3.9	92.63	4.3	151.2
Malaysia	(M$)	2.5539	+0.0001	537 - 540	2.5545	2.5536	2.5519	0.9	2.5474	1.0	2.5314	0.9	-
New Zealand	(NZ$)	1.5800	+0.0047	793 - 810	1.5842	1.5771	1.5827	-2.1	1.5903	-2.6	1.617	-2.3	-
Philippines	(Peso)	25.4000	+0.15	500 - 500	25.4500	25.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-	502 - 505	3.7505	3.7502	3.753	-0.8	3.7563	-0.6	3.7679	-0.5	-
Singapore	(S$)	1.4529	-0.0003	526 - 531	1.4540	1.4530	1.448	4.1	1.4426	2.8	1.4192	2.3	-
S Africa (Com.)	(R)	3.6038	+0.0115	000 - 075	3.6595	3.5915	3.6173	-4.5	3.652	-5.3	3.8213	-6.0	-
S Africa (Fin.)	(R)	3.8520	+0.022	420 - 620	3.8620	3.8050	3.8795	-8.6	3.9295	-8.0	4.162	-8.0	-
South Korea	(Won)	788.450	-0.55	400 - 500	788.600	787.100	791.45	-4.6	794.95	-3.3	813.45	-3.2	-
Taiwan	(T$)	26.3600	-0.001	590 - 610	26.3630	26.3610	26.38	-0.9	26.42	-0.9	-	-	-
Thailand	(Bt)	24.9400	-0.005	300 - 500	24.9520	24.9300	24.9525	-0.6	24.9885	-0.4	24.9925	-0.2	-

†SDR rate for Feb 22. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Feb 22. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

February 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4⅞	5¼	5½	5¾	6⅛	7.40	4.50	-
week ago	4¾	5½	5⅝	5¾	6¼	7.40	4.50	-
France	5¹¹⁄₁₆	5⅞	5⅞	6⅛	6⅝	5.00	-	6.40
week ago	5⅝	5⅞	5¾	6⅛	6⅝	5.00	-	6.40
Germany	4.88	4.95	5.05	5.23	5.68	6.00	4.50	4.85
week ago	4.93	4.95	5.05	5.20	5.65	6.00	4.50	4.85
Ireland	5⅛	5¾	6¼	6⅝	7⅜	-	-	6.25
week ago	5⅛	5¾	6⅛	6⅞	7⅝	-	-	6.25
Italy	8⅝	9⅛	9⅜	9⅞	10⅝	-	7.50	8.35
week ago	8⅝	9⅛	8⅞	9⅜	10⅛	-	7.50	8.20
Netherlands	4.84	5.02	5.13	5.33	5.79	-	5.25	-
week ago	4.84	5.02	5.10	5.28	5.75	-	5.25	-
Switzerland	3⅛	3⅜	3⅞	4⅛	4½	6.625	3.50	-
week ago	3¼	3⅜	3⅞	4⅛	4½	6.625	3.50	-
US	6	6⅛	6⅜	6⅝	6⅞	-	5.25	-
week ago	6⅛	6⅛	6¼	6⅝	7⅛	-	5.25	-
Japan	2⅛	2⅜	2¼	2⅜	2⅛	-	1.75	-
week ago	2⅛	2⅜	2¼	2⅜	2⅛	-	1.75	-
■ **$ LIBOR FT London**								
Interbank Fixing	-	6⅛	6⅜	6⅝	6⅞	-	-	-
week ago	-	6⅛	6¼	6⅝	7⅛	-	-	-
US Dollar CDs	-	5.92	5.98	6.15	6.52	-	-	-
week ago	-	5.92	6.04	6.29	6.81	-	-	-
SDR Linked Ds	-	4⅜	4⅝	5⅛	5⅜	-	-	-
week ago	-	4⅜	4.438	4.688	5.188	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅝; 3 mths: 6⅛; 6 mths: 6⅝; 1 year: 6⅞. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Feb 23	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	6 - 5⅞	5⅞ - 5¾	5⅝ - 5⁷⁄₁₆	5⅝ - 5½	5¹³⁄₁₆ - 5¹¹⁄₁₆	6⅜ - 6¼
Danish Krone	5¾ - 5¼	5¾ - 5½	5¾ - 5½	6 - 5¹³⁄₁₆	6⅜ - 6¼	6¹³⁄₁₆ - 6⅝
D-Mark	4⅞ - 4¾	4¹⁵⁄₁₆ - 4¹³⁄₁₆	5 - 4⅞	5¹⁄₁₆ - 4¹⁵⁄₁₆	5¼ - 5⅛	5¾ - 5⅝
Dutch Guilder	5 - 4¹³⁄₁₆	5⅛ - 4⅞	5¹⁄₁₆ - 4¹⁵⁄₁₆	5⅛ - 5⅛	5⅜ - 5¼	5¹³⁄₁₆ - 5¾
French Franc	6⅜ - 5¾	5⁷⁄₁₆ - 5⅜	5⅝ - 5⁷⁄₁₆	5⅞ - 5¾	6¼ - 6⅛	6¾ - 6⅝
Portuguese Esc.	8¹³⁄₁₆ - 8⅝	9 - 8¾	9⅜ - 9⅛	10¼ - 10	10¾ - 10½	11¼ - 10¹⁵⁄₁₆
Spanish Peseta	8⅛ - 8¹⁄₁₆	8⅜ - 8⅛	8⅞ - 8⅝	8¾ - 8⅝	9¼ - 9⅛	10¹⁄₁₆ - 9¹⁵⁄₁₆
Sterling	5¾ - 5½	6¼ - 6⅛	6¹⁵⁄₁₆ - 6¹³⁄₁₆	6¾ - 6⅝	7¹⁄₁₆ - 7	7²³⁄₃₂ - 7²¹⁄₃₂
Swiss Franc	3⅜ - 3¼	3½ - 3⅜	3⅜ - 3⅞	3¹⁵⁄₁₆ - 3¹³⁄₁₆	4¹⁄₁₆ - 3¹⁵⁄₁₆	4⅜ - 4⅜
Can. Dollar	7¹³⁄₁₆ - 7¾	8⅛ - 7⅞	8⅛ - 7¹⁵⁄₁₆	8¼ - 8⅛	8⅝ - 8⅜	8⅞ - 8⅝
US Dollar	6 - 5⅞	6¹⁄₁₆ - 5¹⁵⁄₁₆	6¹⁄₁₆ - 5¹⁵⁄₁₆	6⅜ - 6⁵⁄₁₆	6⅜ - 6¼	6¾ - 6⅝
Italian Lira	9 - 7½	8⅞ - 8¾	9¹⁄₁₆ - 8¹⁵⁄₁₆	9⅝ - 9⁷⁄₁₆	9½ - 9⅜	10⅝ - 10½
Yen	2⁵⁄₁₆ - 2⅛	2⁵⁄₁₆ - 2⅛	2⁷⁄₃₂ - 2⁵⁄₃₂	2⁹⁄₃₂ - 2⁷⁄₃₂	2¹³⁄₃₂ - 2¹¹⁄₃₂	2⁹⁄₁₆ - 2⅜
Asian $Sing	2⅛ - 2	1⅞ - 1¾	2¼ - 2⅛	2¾ - 2⅝	3⅜ - 3¼	4¹⁄₁₆ - 3¹⁵⁄₁₆

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.92	93.98	+0.12	94.04	93.92	17,925	48,188
Jun	93.34	93.44	+0.16	93.50	93.34	41,783	49,962
Sep	93.03	93.11	+0.14	93.19	93.03	9,541	35,816
Dec	92.80	92.87	+0.15	92.93	92.78	3,824	20,971

■ **THREE MONTH EURODOLLAR** (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	93.76	+0.06	-	-	0	1584
Jun	-	93.50	+0.21	-	-	0	555
Sep	93.21	93.29	+0.33	93.22	93.21	180	207
Dec	-	93.07	+0.41	-	-	0	270

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.85	94.88	+0.04	94.87	94.84	27372	163276
Jun	94.46	94.52	+0.11	94.53	94.46	60411	189860
Sep	94.03	94.14	+0.16	94.15	94.03	58832	123423
Dec	93.65	93.73	+0.18	93.75	93.65	27568	90477

■ **THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	90.40	90.38	+0.12	90.44	90.34	9958	32663
Jun	89.65	89.72	+0.16	89.76	89.63	11298	34549
Sep	89.30	89.32	+0.15	89.37	89.27	3362	29323
Dec	89.02	89.05	+0.13	89.10	89.01	1470	15110

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.03	96.05	+0.06	96.05	96.01	2061	16780
Jun	95.64	95.71	+0.10	95.75	95.64	3865	18028
Sep	95.35	95.41	+0.11	95.41	95.34	1482	6769
Dec	95.07	95.12	+0.10	95.13	95.07	474	5641

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.72	93.78	+0.11	93.77	93.70	2445	9737
Jun	93.20	93.25	+0.11	93.28	93.19	2332	7501
Sep	92.77	92.84	+0.13	92.85	92.77	359	3773
Dec	92.38	92.44	+0.13	92.45	92.38	126	2041

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 23		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.19	16.95	4.855	2.080	5338	5.443	21.38	503.1	425.0	23.94	4.130	2.071	4.596	3.297	319.2	2.593
Denmark	(DKr)	52.11	10	8.833	2.530	1.084	2781	2.836	11.14	262.2	221.5	12.48	2.152	1.079	2.395	1.718	166.3	1.351
France	(FFr)	58.99	11.32	10	2.864	1.227	3149	3.211	12.61	296.8	250.7	14.13	2.436	1.222	2.711	1.945	188.3	1.530
Germany	(DM)	20.60	3.953	3.491	1	0.428	1099	1.121	4.403	103.6	87.54	4.932	0.851	0.427	0.947	0.679	65.74	0.534
Ireland	(I£)	48.09	9.228	8.151	2.335	1	2567	2.618	10.28	241.9	204.4	11.51	1.986	0.996	2.210	1.586	153.5	1.247
Italy	(L)	1.873	0.360	0.318	0.091	0.039	100.	0.102	0.400	9.426	7.963	0.449	0.077	0.039	0.086	0.062	5.980	0.049
Netherlands	(Fl)	18.37	3.525	3.114	0.892	0.382	980.6	1	3.927	92.43	78.08	4.399	0.759	0.381	0.844	0.606	58.64	0.476
Norway	(NKr)	46.78	8.978	7.930	2.271	0.973	2497	2.547	10	235.4	198.8	11.20	1.932	0.969	2.150	1.543	149.3	1.213
Portugal	(Es)	19.88	3.814	3.369	0.965	0.413	1061	1.082	4.249	100.	84.48	4.759	0.821	0.412	0.914	0.655	63.44	0.515
Spain	(Pta)	23.53	4.515	3.988	1.142	0.489	1256	1.281	5.029	118.4	100.	5.634	0.972	0.487	1.081	0.776	75.10	0.610
Sweden	(SKr)	41.76	8.015	7.080	2.028	0.869	2229	2.273	8.927	210.1	177.5	10	1.725	0.865	1.920	1.377	133.3	1.083
Switzerland	(SFr)	24.21	4.646	4.104	1.176	0.504	1292	1.318	5.176	121.8	102.9	5.797	1	0.502	1.113	0.798	77.28	0.628
UK	(£)	48.28	9.265	8.184	2.344	1.004	2577	2.628	10.32	242.9	205.2	11.56	1.994	1	2.219	1.592	154.1	1.252
Canada	(C$)	21.76	4.175	3.688	1.056	0.452	1161	1.184	4.651	109.5	92.47	5.210	0.899	0.451	1	0.717	69.45	0.564
US	($)	30.33	5.820	5.141	1.472	0.631	1619	1.651	6.482	152.6	128.9	7.261	1.263	0.628	1.394	1	96.80	0.786
Japan	(Y)	31.33	6.012	5.311	1.521	0.652	1672	1.705	6.697	157.6	133.2	7.502	1.294	0.649	1.440	1.033	100.	0.812
Ecu		38.56	7.400	6.537	1.872	0.802	2058	2.099	8.243	194.0	163.9	9.233	1.593	0.799	1.772	1.272	123.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6805	0.6800	-0.0008	0.6812	0.6776	48,161	93,764
Jun	0.6798	0.6824	-0.0004	0.6825	0.6798	3,699	8,111
Sep	0.6810	0.6836	-0.0026	0.6836	0.6810	139	834

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.0355	1.0350	+0.0014	1.0362	1.0305	23,825	79,312
Jun	1.0454	1.0467	+0.0022	1.0471	1.0420	2,422	10,256
Sep	1.0550	1.0575	-0.0006	1.0575	1.0550	321	739

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8027	0.8002	-0.0024	0.8030	0.7974	27,247	45,033
Jun	0.8076	0.8050	-0.0026	0.8076	0.8024	1,238	3,810
Sep	0.8070	0.8080	-0.0050	0.8080	0.8070	19	180

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.5866	1.5930	+0.0038	1.5948	1.5862	15,041	46,551
Jun	1.5880	1.5910	+0.0038	1.5940	1.5870	361	1,869
Sep	-	1.5880	+0.0048	1.5900	-	2	12

UK INTEREST RATES

LONDON MONEY RATES

Feb 23	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	10 - 3	6½ - 6⅛	6⅜ - 6¼	6¾ - 6⅝	7⅛ - 7	7¾ - 7⅝
Sterling CDs	-	-	6¹³⁄₁₆ - 6¹¹⁄₁₆	6⅝ - 6⅞	7 - 6⅞	7⅝ - 7½
Treasury Bills	-	-	6⅜ - 6⅜	6½ - 6⅞	-	-
Bank Bills	-	-	6⅜ - 6⅜	6¹⁷⁄₃₂ - 6¹⁵⁄₃₂	6¹³⁄₁₆ - 6¾	-
Local authority deps.	6⅞ - 6⅛	6⅛ - 6	6⅞ - 6⅜	6¾ - 6⅝	7⅛ - 6¹⁵⁄₁₆	7²³⁄₃₂ - 7⅝
Discount Market deps	7½ - 6⅝	6⁵⁄₁₆ - 6⅜	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5⅜	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 6.1553pc. ECGD fixed rate Stg. Export Finance. Make up day Jan 31, 1995. Agreed rate for period Feb 26, 1995 to Mar 25, 1995, Schemes II & III 7.87pc. Reference rate for period Dec 31, 1994 to Jan 31, 1995, Schemes IV & V 6.624pc. Finance House Base Rate 7pc from Feb 1, 1995

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.14	93.12	+0.04	93.14	93.06	16750	71763
Jun	92.48	92.48	+0.10	92.51	92.44	39558	95044
Sep	91.98	92.04	+0.15	92.06	91.96	33119	84733
Dec	91.62	91.70	+0.16	91.74	91.62	15930	52391

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9300	0.15	0.04	0.06	0.03	0.56	1.02
9325	0.01	0.01	0.03	0.14	0.78	1.24
9350	0	0	0.01	0.38	1.02	1.47

Est. vol. total, Calls 7226 Puts 7743. Previous day's open int., Calls 217097 Puts 190848

EMS EUROPEAN CURRENCY UNIT RATES

Feb 23	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.11226	+0.00105	-3.84	11.11	-
Belgium	40.2123	38.7859	-0.0015	-3.55	10.77	25
Austria	13.7167	13.2586	+0.0074	-3.45	11.05	-
Germany	1.94964	1.88390	+0.00121	-3.37	10.57	-
Ireland	0.808628	0.807190	-0.001063	-0.18	7.03	0
Denmark	7.43679	7.44618	+0.00269	0.13	6.70	-2
France	6.53883	6.57512	+0.001	0.55	6.25	-6
Portugal	192.854	195.148	-0.231	1.19	5.58	-9
Spain	154.250	164.799	-0.268	6.84	0.00	-49
NON ERM MEMBERS						
Greece	264.513	297.885	+0.198	12.62	-5.13	-
Italy	1793.19	2067.75	-2.5	15.31	-7.35	-
UK	0.786749	0.803888	-0.000893	2.18	4.56	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Mar	Apr	May	PUTS Mar	Apr	May
1.500	9.14	9.09	9.15	-	0.03	0.18
1.525	6.71	6.82	7.01	-	0.19	0.46
1.550	4.30	4.70	5.05	0.04	0.54	0.96
1.575	2.21	2.91	3.38	0.40	1.23	1.77
1.600	0.76	1.63	2.15	1.44	2.38	2.90
1.625	0.16	0.80	1.26	3.28	3.98	4.47

Previous day's vol., Calls 11,710 Puts 10,018 . Prev. day's open int., Calls 288,857 Puts 330,401

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	93.73	93.78	+0.02	93.78	93.73	101,995	395,142
Jun	93.40	93.48	+0.08	93.59	93.40	245,069	437,752
Sep	93.15	93.28	+0.13	93.38	93.14	233,484	266,627

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.31	94.32	+0.02	94.33	94.31	2,395	5,103
Jun	94.01	94.04	+0.08	94.13	93.99	84089	11,799
Sep	93.59	93.84	+0.13	93.92	93.59	860	6,783

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Mar	Apr	May	Jun	PUTS Mar	Apr	May	Jun
9475	0.13	0.04	0.07	0.08	0.02	0.27	0.30	0.31
9500	0.01	0.01	0.02	0.02	0.15	0.49	0.50	0.50
9525	0.01	0	0	0	0.40	0.73	0.73	0.73

Est. vol. total, Calls 7201 Puts 30438. Previous day's open int., Calls 182017 Puts 270700

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	Jun	Sep	PUTS Mar	Jun	Sep
9600	0.08	0.04	0.03	0.03	0.33	0.62
9625	0	0.01	0.01	0.20	0.55	0.85
9650	0	0	0	0.45	0.79	1.09

Est. vol. total, Calls 200 Puts 0. Previous day's open int., Calls 1795 Puts 2010

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	9
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.00	Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs.	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	●United Bk of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	* In administration	
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	+ or –	1994/95 high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cns 2nd Pf		98	+1	117	88½	12.2	10.2	–
9¼pc Non-Cum Pf		110¼	+¼	137½	107	47.3	10.3	–
Cater Allen		497	—	1039½	433	142.5	8.1	9.0
Close Bros		233	—	285½	203	221.8	4.0	10.5
Gerrard & Nat		438	—	515	395	212.3	6.9	12.6
Hambros		230	–1	478	209	465.9	8.2	14.1
7½pc Cv Pf		102½	+1	191	99½	171.4	9.2	–
Joseph (L)		398	—	443	383	28.8	5.6	11.4
King & Shaxson		97	—	170	96	16.5	11.6	9.8
Kleinwort Benson		621	—	693	424	828.4	4.4	11.8
Rea Bros		62	—	75	53	25.7	1.9	17.4
Schroders		1513	+3	1874	1050	1,613	1.5	13.9
N/V		1358	+2	1469	1043	382.9	1.7	12.4
Singer & Fried		83	—	114	75	162.2	4.7	10.7
Union		84	—	199	83	22.3	8.7	7.8
Warburg (SG)		721	+2	1012	599	1,598	3.8	13.2
Wintrust		228xd	—	390	203	16.7	6.0	14.7

BANKS, RETAIL

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

BUILDING MATS. & MERCHANTS - Cont.

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL

Notes	Price	+ or –	1994/95 High	low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue							
Aberforth Split Inc N	86xd	—	97	84	12.9	–	–
Cap	184	—	225	180	–	252.2	35.0
Units N	252xd	—	320	251	4.2	252.2	3.9
Abtrust Prf Inc ♣N□	100	—	148	98	15.9	88.0	-12.0
Zero Div Pf	165½	—	167½	155½	–	–	–
Archimedes Inc N	232	—	270	220	14.3	–	–
Cap	398	—	433	355	–	620.9	35.9
City of Oxford ♣N□	30½xd	—	48	30	20.5	25.6	-18.1
Warrants	6	—	18	6	–	–	–
Zero Div Pf	108	+½	104¼	95½	–	–	–
Contra-Cycl Inc ♣N	58xd	—	80	58	20.5	–	–
Cap □	19½	—	25½	18½	–	41.3	52.8
Zero Div Pf	85	—	87½	80	–	–	–
Danae Inc ♣N	76xd	—	95	76	13.1	–	–
Cap	33	—	49	33	–	63.2	47.8
Derby Inc HN	156xd	—	173	147	13.9	–	–
Cap	295	—	328	268	–	444.3	33.6
Drayton Blue Chip ♣N□	58	—	109	58	18.1	55.8	-3.5
Zero Pf	162	—	163	154	–	–	–
Edinburgh Income ♣N□	46	—	61	45	19.9	37.1	-19.3
Zero Div Pf	62	+¼	62	55½	–	–	–
Exmoor Dual ♣N	24	—	44	23	8.3	31.2	23.1
Inc N	62xd	—	86	62	14.2	–	–
Zero Cap Pf	244	—	252	241	–	–	–
Finsbury Smlr Co's ♣N	159xd	—	183	158	2.7	182.5	2.2
Zero Pf	182	—	182	177	–	–	–
Fleming Geared Inc ♣N	189xd	—	251	188	1.5	239.9	20.6
Warrants	114	—	238	113	–	–	–
Cm Ptg Pf	159	+1	168	154	9.9	–	–
Fleming I & C Inc ♣N□	72½xd	—	101½	69½	8.4	77.1	6.0
Units N□	119xd	—	158	116	5.1	117.7	-1.1
[illegible]							

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

INVESTMENT COMPANIES - Cont.

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

Notes	Price	+ or –	1994/95 High	low	Mkt CapEm	Yld Gr's
[illegible]						
TVX Gold ♥	418½p	+22	480½p	338½p	659.7	–
Toronto-Dom	9⅛	+⅛	11⅛	8⅛	2,961	4.0
Trans Can Pipe ♥	8⅛	+⅛	10⅛	7⅛	1,498	4.5

SOUTH AFRICANS

Notes	Price	+ or –	1994/95 High	low	Mkt CapEm	Yld Gr's	P/E
Anglo Am Ind	£29	—	£34	£13½	1,892	2.5	21.2
Barlow ♣	[illegible]	—	[illegible]	[illegible]	1,128	1.7	20.7
Gold Flds Prop R	140xd	—	182	75	14.8	7.3	Φ
NK Props	85	—	98	85	3.42	13.8	–
SASOL ♥	487	—	582	280	2,809	2.8	–
SA Brews †	£14⅞	—	£18¾	£10	4,128	1.9	23.8
Tiger Oats	725	—	838	538	1,090	2.0	17.5
Tongaat-Hulett †h	782	—	*782	356¼	694.5	1.8	22.8

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ※ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Figures based on IIMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OFFSHORE INSURANCES

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MANAGED FUNDS NOTES

[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

UK stocks led forward by gilts and Wall Street

By Terry Byland, UK Stock Market Editor

Widespread gains in UK stocks were extended yesterday when New York markets opened strongly after deeper consideration of Mr Alan Greenspan's Humphrey-Hawkins testimony to the US Senate banking committee. Mr Greenspan's further comment yesterday that the Federal Reserve's actions would "hopefully" contain inflation confirmed the strength of both bond and equity markets.

At the London close, the Dow Jones Industrial Average was nearly 40 points stronger and comfortably clear of the 4,000 barrier for the first time in its history.

Early gains in UK gilts, and a steadier performance by global currencies, drove the stock market ahead in the first half of the session, and the FT-SE 100-share Index was 23 points up before Wall Street opened. A mixed bag of trading statements from leading blue chip companies gave the market little support overall, however.

At the close of business, the FT-SE 100 Index was standing 29.8 higher at 3,049.3, the best reading of the session. The advance by the index brushed off small losses in ICI, Shell Transport and British Gas, all of which traded heavily on their respective profits news.

The focus on this cluster of blue chip names left the FT-SE Mid 250 Index out in the cold, to register a meagre rise of 0.5 points at 3,401.0.

Seaq trading volume increased only modestly to 577.9m shares, and around 6.7 per cent of this total came from a single stock – British Gas. The market gave a cool reception to the dividend and profits announcement from British Gas, which was a disappointment from a sector regarded as a reliable source of favourable dividend and earnings trends.

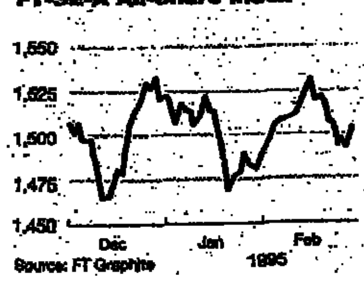
Nor was there much response from shares in ICI and Shell, although Shell's profits in particular were well received. ICI failed to please with an unchanged dividend and sector analysts shied off references in both company statements to the outlook for chemical operations in the year ahead.

The more speculative area of the stock market was discouraged by new terms from Trafalgar House for Northern Electric; the new bid was lower than the speculators were expecting. Trafalgar's warning of a loss for the first half of this year cast a cloud over the bid's prospects, and Northern's shares fell into line with the new cash alternative.

These somewhat negative developments were balanced by firmness in SmithKline Beecham and Royal Insurance. But strategists commented on the market's ability to follow Wall Street in spite of less encouraging company news at home.

The advance in the stock market was led by the US-orientated issues. Pharmaceuticals ended firmer both on the SmithKline Beecham results and also the sector's underlying confidence that Glaxo's £9bn-plus bid for Wellcome is moving towards fruition in the early days of next month. The weight of takeover bid cash input, both actual and prospective, continues to provide a strong underpinning for a UK stock market now less optimistic on corporate earnings and dividends.

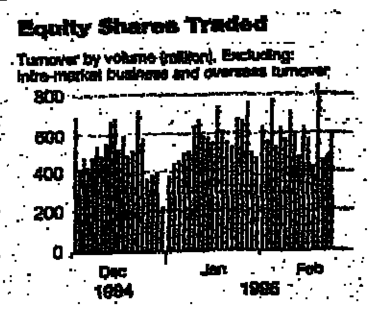
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover.



Indices and ratios

FT-SE 100	3049.3	+29.8
FT-SE Mid 250	3401.0	+0.5
FT-SE-A 350	1520.8	+11.6
FT-SE-A All-Share	1503.71	+10.62
FT-SE-A All-Share yield	4.14	(4.15)
FT Ordinary index	2314.3	+13.0
FT-SE-A Non Fins p/e	17.75	(17.34)
FT-SE 100 Fut Mar	3052.0	+35.0
10 yr Gilt yield	8.62	(8.73)
Long gilt/equity yld ratio:	2.10	(2.11)

Best performing sectors

1 Tobacco .... +2.7
2 Banks, Retail .... +2.5
3 Insurance .... +2.5
4 Pharmaceuticals .... +1.5
5 Media .... +1.4

Worst performing sectors

1 Gas Distribution .... -1.6
2 Engineering, Vehicles .... -1.0
3 Electricity .... -0.6
4 Other Ser & Bus .... -0.3
5 Oil, Integrated .... -0.2

Gas fails to please investors

Acute disappointment with preliminary results and especially the unchanged dividend from British Gas saw the shares decline 5 to 299p. Turnover of 39m was the heaviest single day's trading since July 1990 and one of the highest on record. One institution was said to have offloaded a block of 5m shares.

"These figures are a disaster; the profits are below the market's worst expectations and the institutions are unhappy about the dividend. Only last autumn we were led to believe that real dividend increases were in the pipeline; that is clearly not the case now," said one disillusioned analyst.

On that basis many specialists, shaving back their dividend estimates, are now saying the shares look overvalued and deserve their high yield premium rating.

ICI retreats

Concern over the pace of the economic cycle and disappointment over the dividend led to a poor performance from ICI. Although the company's profits of £514m before exceptional items were in line with market expectations, the stock retreated 7 to 715p on heavy turnover of 6.4m shares.

Many investors were quietly hoping that Sir Denys Henderson, the chief executive, would mark his final year with a slightly increased payout to shareholders. Instead it was held at 27.5p.

Also, the highly rated chemicals team at Smith New Court, traditionally the leading bulls of ICI, turned cautious yesterday.

Analyst Mr Charles Lambert cut his 1996 profits forecast by £110m to £870m and advised clients to reduce holdings. "I am coming to the feeling that the shape of the cycle will not be as spiky as previously thought," said Mr Lambert. He added that dividend growth would probably be slower than previously expected.

Lucas hit

A freeze on US defence business sparked active trading in Lucas Industries, leaving the shares 7 down at 174p, against the day's low of 164p. The ban, which stems from quality control litigation in the US, led to 13m shares changing hands.

US defence business accounts for less than 3 per cent of Lucas's total turnover, and some analysts saw the ban on new orders as a storm in a tea cup. Others felt the move created worries about restructuring costs. Most expect next month's results statement to shed more light on the situation.

Dealers pointed to Lucas's modest debt and shrugged aside any threat to group funding plans from the 6 per cent fall in the share price over the past two days. The shares are now within a whisker of the 172p at which £120m worth of warrants are due for conversion in June.

The regional electricity stocks tumbled as the market registered disappointment with the increased bid for Northern Electric from Trafalgar House.

The new offer, £11 cash for every Northern share, fell well short of market expectations, which ranged from £11.50 up to £13. Northern shares, which dropped 75 to 1053p, illustrated the market's displeasure at the day's events. Some analysts took the view that the raised offer gave Northern a good chance of "slipping the noose".

"It is a cheeky bid and the outcome will be very tight indeed," said one leading analyst. He took the view, however, that Trafalgar might just win the day, although the bid was "finely balanced". Another utilities specialist said the institutions would be keen to take Trafalgar's cash.

Trafalgar House disappointed its supporters and surprised others by issuing a profits warning immediately before tabling its higher offer for Northern. Trafalgar shares closed a penny easier at 64½p.

Among the other recs, Yorkshire Electricity was again the most heavily traded stock, slipping 9 to 820p on 1.8m turnover, with some market observers still harbouring suspicions that a takeover bid for the company may appear. Manweb dropped 33 to 788p and Midland 24 to 725p.

Dealers were surprised at the poor performance of Shell Transport after the preliminary results. The shares dipped 4 to 720p with turnover expanding rapidly to 9.4m.

"Although the figures were littered with non-recurring items, they were far better than any of the US majors and a close second to BP's," was the view of one analyst.

Banks were among the market's front runners, with marketmakers noting strong support across the board and talk of more buying to come. NatWest was the sector's best performer, closing 14 up at 504p.

Royal Insurance's preliminary results were at the top end of market expectations and the shares ran up 11 or 4 per cent to 283p.

Telegraph shares jumped 54 to 434p in spite of a slide in full-year profits as it was revealed that the newspaper is to be re-absorbed into Mr Conrad Black's empire. Hollinger, Mr Black's Canadian-based company which owns 59 per cent of the Telegraph, is to bid for the remainder, at a price rumoured to be around 450p a share.

Paper group Arjo Wiggins Appleton was the top performer in the FT-SE 100 as speculation continued that St Louis, the 40 per cent stakeholder, might be poised to sell its holding. Arjo gained 12½ at 251p, still well down from the 315p peak seen last May.

Pharmaceuticals group SmithKline Beecham rose following profits before exceptionals of £1.271bn. The company finally put paid to old worries that it would be badly hit by patent expiry of Tagamet, once its best selling ulcer drug.

The drug's patent ended in May, but Mr Paul Krikler of Goldman Sachs commented: "Despite the expiry, SmithKline had good sales growth as new products kicked in, outweighing Tagamet's decline." Consequently, profits were above analysts' forecasts, which ranged between £1.23bn and £1.26bn. The shares jumped 20 to 497p.

The more troubled Fisons improved 4 to 124p. Lehman Brothers believes the new chief executive might consider breaking up the company and analyst Mr Ian Smith thinks the group has a break-up value of between 207p and 250p a share.

British Biotech fell 23 to 441p on consideration of last week's news of a delay in clinical programmes involving its key anti-cancer drug.

Retailer Kingfisher continued to power ahead as the market appreciated the reduced competition in the electrical retailing market, following the this week's decision by two regional electricity companies to quit the sector. The shares rose 7 to 425p in trade of 1.1m.

Vague bid talk also continued to do the rounds, giving a further boost to the stock.

A two-way pull in MFI Furniture left the shares unchanged at 114½p. James Capel was said to have crossed several lines of stock, all of which contributed to the day's total volume of 1.1m.

Boots gained 7 at 483p after announcing that its Halfords unit is in talks with Daewoo Cars, of Korea, to provide a nationwide service coverage for when the new car is launched on the market in April.

Get Group, the electrical products distributor which was placed at 125p, closed at 128p after its first-day dealings.

MARKET REPORTERS:

Steve Thompson, Peter John, Joel Kibazo, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Feb 23	Feb 22	Feb 21	Feb 20	Feb 17	Yr ago	*High	*Low
Ordinary Share	2314.3	2301.3	2298.2	2297.6	2315.0	2528.1	2713.6	2238.3
Ord. div. yield	4.59	4.62	4.63	4.61	4.55	3.87	4.68	3.43
Earn. yld. % full	6.98	7.03	7.04	6.98	6.92	4.90	7.04	3.82
P/E ratio net	18.93	18.82	18.79	18.96	17.10	22.15	33.43	18.79
P/E ratio nil	16.14	16.03	16.00	16.18	16.29	23.09	30.80	16.00

*For 1994/5. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2295.9	2306.2	2302.2	2305.7	2308.7	2307.8	2310.6	2311.1	2313.5	2316.6	2295.8

	Feb 23	Feb 22	Feb 21	Feb 20	Feb 17	Yr ago
SEAQ bargains	22,168	21,012	20,351	19,756	20,520	33,598
Equity turnover (£m)†	-	1382.8	1096.7	1130.9	1128.5	1758.2
Equity bargains†	-	28,351	27,245	28,581	27,800	37,375
Shares traded (ml)†	-	605.8	479.7	476.7	461.9	844.2

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1994/95 Highs and lows		LIFFE Equity options	
Total Rises	605	Total Highs	20	Total contracts	28,656
Total Falls	529	Total Lows	98	Calls	12,115
Same	1,709			Puts	16,541

Feb 23 *Data based on Equity shares listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994/95 High	1994/95 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§10	F.P.	17.1	13¼	13	Bath Press	13		-	-	-	-
§125	F.P.	21.1	131	128	GET Group	128		N-	-	-	11.1
-	F.P.	22.4	87	86	Inv Tst of Inv Tsts	86		-	-	-	-
-	F.P.	2.96	59	57	Do. Warrants	57		-	-	-	-
-	F.P.	25.1	55	48¼	Lazard Birla India	48½	-1¾	-	-	-	-
-	F.P.	2.94	32½	28	Do Warrants	28¼	-1	-	-	-	-
35	F.P.	22.1	36	34	MCIT S Cap	34		-	-	-	-
35	P.P.	23.4	36	36	MCIT S Inc	36		-	-	-	-
100	F.P.	39.5	94	78	Matheson Lloyds	79		-	-	-	-
-	F.P.	14.4	130	70	Pentex Oil	72	-8	-	-	-	-
150	F.P.	16.1	160	150	Photobition	156		RN6.0	2.0	4.8	11.3
-	F.P.	4.40	11¼	10½	Wessex Trust	11	-¼	-	-	-	-
-	F.P.	262.1	128	118	Woodchester Units	125		-	-	-	-

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3028.0	3052.0	+35.0	3063.0	3027.0	13497	54761
Jun	3036.0	3060.0	+35.0	3061.5	3036.0	269	13422
Sep		3083.0	+35.0			0	148

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3400.0	3405.0	-	3400.0	3400.0	50	3353
Jun	3420.0	3425.0	-1.0	3420.0	3420.0	50	650

■ FT-SE 100 INDEX OPTION (LIFFE) (*3047) £10 per full index point

	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P
Mar	207	4	159½	6	115	12	75½	22½	42½	41	20	69½	8	110½	2½	158
Apr	211½	13½	169	21	131½	33½	97½	50	68	70	46	97½	28½	131	16½	169
May	228½	22	188	33	151½	46	120	64	89	83½	66	110	46	140½	31½	76½
Jun	235	30½	198½	42½	162½	56	132½	74½	103½	95½	81	123	59½	152½	45	187½
Dec†			266	86			224	121½			172	168			124	222

Calls 4,672 Puts 5,073

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2875 C	2875 P	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P	3225 C	3225 P
Mar	179½	3½	133½	7½	91½	14½	57	30	29	52	13	85½	5½	127½	1½	173½
Apr	188½	16½	148½	26½	113	40½	82½	59½	58	84	38½	114½	24½	149½	14½	189
May	209½	26½	170½	37½	135	52	103½	70½	77	94	55½	122½	38½	155½	26	183
Jun	219½	38	183	50½	149½	66½	119½	85½	94	108½	72	135½	53½	166	38½	200
Sept†			223½	71½			162½	106½			112½	153			73½	210½

Calls 1,297 Puts 1,948 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

FT GOLD MINES INDEX

	Feb 22	% chg on day	Feb 21	Feb 20	Year ago	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1766.19	+2.0	1732.29	1737.42	1969.82	2.14	2097.99	1637.91
■ Regional Indices								
Africa (16)	2695.52	+0.3	2686.54	2701.47	2602.17	5.03	3711.87	2304.45
Australasia (7)	1898.77	+1.4	1873.20	1844.41	2547.57	0.86	2951.49	1788.20
North America (11)	1474.76	+3.0	1431.70	1439.08	1700.18	0.76	1911.21	1348.18

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Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92.
Predecessor Gold Mines Index: Feb 23: 199.5 ; day's change: +1.1 Year ago: 202.7 † Partial.
Latest prices were unavailable for this edition.

FT - SE Actuaries Share Indices — The UK Series

	Feb 23	Day's chge%	Feb 22	Feb 21	Feb 20	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3049.3	+1.0	3019.5	3023.4	3018.6	3267.5	4.34	7.29	16.20	11.83	1168.71
FT-SE Mid 250	3401.0	....	3400.5	3414.4	3416.1	3923.0	3.75	6.50	18.32	9.72	1285.01
FT-SE Mid 250 ex Inv Trusts	3408.7	....	3410.4	3425.2	3427.2	3937.3	3.90	7.02	17.06	9.86	1286.07
FT-SE-A 350	1520.8	+0.8	1509.2	1512.1	1510.4	1657.6	4.20	7.11	16.64	5.55	1192.47
FT-SE-A 350 Higher Yield	1545.7	+0.5	1538.0	1540.3	1540.0	1655.9	5.24	7.60	15.70	8.10	997.60
FT-SE-A 350 Lower Yield	1495.4	+1.0	1480.1	1483.7	1480.6	1617.3	3.15	6.92	17.71	3.05	987.77
FT-SE SmallCap	1707.35	+0.1	1705.03	1709.64	1711.59	2046.77	3.41	5.90	21.21	4.71	1338.17
FT-SE SmallCap ex Inv Trusts	1685.30	....	1684.49	1688.24	1690.29	2027.28	3.60	6.59	19.27	4.72	1325.40
FT-SE-A ALL-SHARE	1503.71	+0.7	1493.09	1496.00	1494.58	1650.46	4.14	7.02	16.92	5.38	1199.00

■ FT-SE Actuaries All-Share

	Feb 23	Day's chge%	Feb 22	Feb 21	Feb 20	Year ago	Div. yield%	Earn yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	2646.17	....	2646.25	2647.85	2644.26	2532.89	3.79	6.19	20.37	8.68	1071.81
12 Extractive Industries(7)	3432.15	+1.0	3399.14	3373.03	3340.96	3794.52	3.53	5.67	21.61	0.00	947.08
15 Oil, Integrated(3)	2656.02	-0.2	2661.75	2667.00	2668.11	2462.65	3.97	7.06	17.65	11.39	1101.51
16 Oil Exploration & Prod(14)	1916.61	+0.1	1913.81	1920.66	1915.46	1845.22	2.54	‡	‡	0.00	1108.92
20 GEN INDUSTRIALS(276)	1805.71	+0.3	1800.74	1798.51	1794.09	2134.24	4.33	6.03	19.59	4.39	931.05
21 Building & Construction(38)	924.20	+0.7	918.22	925.17	925.27	1507.66	4.21	6.91	18.82	0.81	730.35
22 Building Matls & Merchs(31)	1697.04	+0.6	1686.82	1696.98	1690.41	2247.66	4.51	6.55	18.45	0.20	807.78
23 Chemicals(23)	2152.45	+0.1	2150.21	2160.15	2171.41	2391.01	4.40	5.35	21.09	0.59	961.98
24 Diversified Industrials(17)	1798.79	+0.4	1792.42	1770.27	1768.85	2085.23	5.18	6.60	17.43	12.90	938.15
25 Electronic & Elect Equip(36)	1911.05	+0.2	1907.18	1894.48	1882.78	2138.65	3.97	6.71	17.70	2.50	945.58
26 Engineering(72)	1729.96	+0.2	1726.87	1731.56	1731.63	1945.38	3.49	5.72	20.53	2.87	999.85
27 Engineering, Vehicles(13)	2037.24	-1.0	2058.40	2070.84	2079.78	2406.51	4.91	1.70	80.00†	0.18	997.35
28 Paper, Pckg & Printing(27)	2788.97	+0.7	2770.84	2733.53	2714.76	2980.30	3.23	5.81	19.86	0.17	1104.20
29 Textiles & Apparel(21)	1458.77	....	1456.34	1462.52	1461.66	1921.29	4.64	6.72	19.34	1.68	836.26
30 CONSUMER GOODS(96)	2826.99	+1.1	2799.35	2806.96	2806.39	2876.11	4.37	6.75	17.33	17.58	989.25
31 Breweries(16)	2152.10	+0.2	2147.76	2150.07	2143.76	2228.81	4.45	8.56	14.08	10.49	985.29
32 Spirits, Wines & Ciders(10)	2561.76	+0.6	2546.17	2508.01	2495.12	3050.20	4.46	7.69	15.39	26.30	874.70
33 Food Producers(24)	2346.45	+0.3	2338.69	2361.69	2348.46	2390.37	4.26	7.50	15.89	14.57	1004.60
34 Household Goods(10)	2488.17	+0.3	2479.86	2487.32	2515.75	2872.98	3.58	6.73	17.90	0.45	900.83
36 Health Care(18)	1579.57	+0.2	1576.90	1579.88	1583.99	1837.98	3.17	3.51	39.46	0.58	922.79
37 Pharmaceuticals(13)	3487.26	+1.5	3434.26	3464.46	3460.64	3084.77	4.09	4.98	23.92	25.70	1126.85
38 Tobacco(2)	3568.45	+2.7	3473.89	3488.18	3537.99	3978.43	6.02	10.21	10.89	0.00	813.99
40 SERVICES(231)	1836.34	+0.9	1819.94	1822.43	1824.12	2080.99	3.44	7.15	16.85	4.90	912.82
41 Distributors(32)	2262.97	+0.8	2248.86	2242.44	2244.29	3104.30	4.13	8.00	14.80	1.53	791.25
42 Leisure & Hotels(29)	2071.51	+0.5	2060.60	2060.06	2074.49	2280.38	3.47	5.92	20.19	9.87	1031.97
43 Media(43)	2726.64	+1.4	2688.43	2693.62	2694.78	3240.94	2.68	5.61	20.07	2.06	950.11
44 Retailers, Food(16)	1774.76	+1.3	1752.19	1755.38	1750.70	1553.83	3.71	9.03	13.57	2.54	1072.59
45 Retailers, General(45)	1508.14	+0.8	1495.44	1494.49	1498.82	1747.70	3.55	7.72	16.07	7.63	824.91
48 Support Services(36)	1439.33	+0.2	1435.95	1441.42	1442.71	1783.86	2.92	6.70	17.58	1.08	882.16
49 Transport(21)	2155.55	+0.7	2140.68	2153.17	2143.22	2622.45	3.95	7.05	16.77	3.32	852.68
51 Other Services & Business(7)	1174.43	-0.3	1177.50	1193.15	1198.18	1320.75	3.81	4.72	26.57	5.42	1023.52
60 UTILITIES(37)	2356.65	-0.1	2359.87	2366.79	2357.34	2517.17	4.61	7.80	16.02	8.85	926.53
62 Electricity(17)	2447.46	-0.6	2462.97	2498.44	2486.77	2395.19	4.17	10.37	11.60	19.89	1047.40
64 Gas Distribution(2)	1976.07	-1.6	2009.90	2019.40	2035.14	2180.96	6.08	‡	‡	0.00	929.08
66 Telecommunications(5)	1983.73	+0.7	1969.34	1959.96	1946.94	2209.38	4.12	6.78	17.98	0.13	860.99
68 Water(13)	1740.03	-0.2	1743.11	1739.29	1727.60	1943.68	5.75	13.79	7.91	4.62	887.26
69 NON-FINANCIALS(665)	1625.57	+0.5	1617.32	1618.81	1617.30	1766.08	4.11	6.76	17.76	5.80	1165.19
70 FINANCIALS(116)	2140.81	+1.8	2102.63	2117.85	2114.88	2451.13	4.87	9.49	12.20	8.25	856.07
71 Banks, Retail(9)	2819.47	+2.5	2751.64	2771.26	2768.58	3184.66	4.49	10.50	10.82	18.56	854.71
72 Banks, Merchant(6)	3061.81	+0.1	3057.91	3061.46	3069.04	3268.66	3.70	8.97	13.02	0.00	929.93
73 Insurance(27)	1196.91	+2.5	1170.12	1185.36	1182.56	1383.46	5.74	8.73	13.24	0.61	829.57
74 Life Assurance(6)	2329.66	+1.0	2306.34	2340.24	2339.47	2584.99	5.49	8.00	15.26	0.00	901.61
77 Other Financial(23)	1841.66	+0.1	1838.96	1844.35	1862.56	2061.21	4.12	8.12	14.22	2.11	996.04
79 Property(46)	1376.45	+0.3	1372.04	1372.75	1367.03	1754.70	4.37	7.75	16.16	1.14	799.33
80 INVESTMENT TRUSTS(135)	2600.50	+0.4	2589.45	2594.55	2596.15	2988.44	2.41	2.07	48.38	6.80	860.92
89 FT-SE-A ALL-SHARE(917)	1503.71	+0.7	1493.09	1496.00	1494.58	1650.46	4.14	7.02	16.92	5.38	1199.00
FT-SE-A Fledgling	971.20	....	971.58	974.13	975.92	-	3.39	-	-	2.84	973.99
FT-SE-A Fledgling ex Inv Trusts	970.87	-0.1	971.84	974.66	976.90	-	3.64	-	-	3.04	973.85

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3021.4	3032.5	3030.2	3033.8	3038.0	3037.9	3042.3	3041.8	3047.4	3048.5	3021.4
FT-SE Mid 250	3388.0	3396.9	3397.0	3397.2	3396.8	3396.0	3396.3	3396.0	3400.5	3401.0	3387.9
FT-SE-A 350	1508.7	1513.9	1513.0	1514.4	1516.0	1515.8	1517.6	1517.3	1520.0	1520.8	1508.7

Time of FT-SE 100 Day's high: 4.30pm Day's low: 8.30am. FT-SE 100 1994 High: 3520.3(2/2/94) Low: 2876.6(24/6/94).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	857.6	857.9	858.2	858.9	860.5	860.9	860.9	860.9	865.1	865.7	857.1	+8.6
Pharmaceuticls	3410.1	3417.0	3416.0	3421.1	3425.6	3427.9	3436.1	3438.3	3447.8	3457.2	3403.9	+53.3
Water	1717.9	1725.5	1728.7	1728.8	1728.5	1724.9	1725.1	1724.8	1733.9	1733.9	1737.5	-3.6
Banks, Retail	2790.0	2803.1	2809.2	2805.8	2826.4	2829.1	2841.4	2836.1	2850.6	2855.5	2788.8	+66.7

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL.
The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1995. © The Financial Times Limited 1995. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,400	351	
ASDA Group†	10,000	67¼	
Abbey National†	2,000	446	+8
Albert Fisher	213	44	
Allied Domecq†	3,400	509	+2
Anglian Water	7,100	482	-2
Argos	430	336	+6
Argyll Group†	3,000	274	+6
Arjo Wiggins†	1,800	251	+12½
Assoc. Brit. Foods†	356	598	
Assoc. Brit. Ports	570	268	+1
BAA†	1,600	439	+1
BAT Inds.†	7,100	426	+12
BET	4,600	108½	+1
BICC	1,800	329	-12
BOC†	1,900	712	+4
BP†	6,700	411½	+1
BPB Inds.	1,000	317	+6
BT†	9,000	386½	+½
BTR†	5,700	316	+3½
Bank of Scotland†	624	202	+4½
Barclays†	4,100	614	+17
Bass†	1,200	513	
Blue Circle†	2,500	284	-1
Booker	225	384	-2
Boots†	2,500	483	+7
Bowater†	1,200	405	-4
Brit. Aerospace†	1,900	466	
British Airways†	2,300	386	+8
British Gas†	39,000	299	-5
British Land	137	371	+1
British Steel†	8,700	162	+3
Bunzl	2,200	169	-3½
Burmah Castrol†	273	840	-5
Burton	1,400	68½	
Cable & Wire†	1,900	387	+5
Cadbury Schweppes†	3,100	425	+5
Caradon†	1,200	231	-1
Carlton Comms.†	386	876	+5
Coats Viyella	1,200	179	+1
Comm. Union†	2,100	523	+15
Cookson	1,900	218	+1
Courtaulds†	885	422	+9
Dalgety	151	426	-2
De La Rue†	282	1035	-2
Dixons	345	211	+1½
Eastern Elect.†	1,200	806	-13
East Midland Elect.	628	737	-7
Electrocomps	777	804	+11
Eng China Clays	269	348	-3
Enterprise Oil†	1,400	397	+4
Eurotunnel Units	241	291	+1
FKI	3,000	138	+1
Fisons	4,400	124	+4
Foreign & Col. I.T.	662	131	+1
Forte†	6,000	237	+2
Gen. Accident†	804	536	+15
General Elect.†	6,500	295	+2½
Glaxo†	3,500	636	+6
Glynwed	875	300	+1
Granada†	886	510½	+4½
Grand Met.†	3,700	377	+4
GUS†	266	521½	+7½
GRE†	1,700	179	+6
GKN†	1,900	589	
Guinness†	4,200	424	+2
HSBC (75p shs)†	3,000	686	+16
Hammerson	5	321	
Hanson†	19,000	241¼	-½
Harrisons Crosfield	526	145	+1
Hays	347	293	+1
Hillsdown	650	173	-2
IMI	582	307	+2
ICI†	7,000	715	-7
Inchcape†	1,700	300	+1
Johnson Matthey	7	590	
Kingfisher†	1,300	425	+7
Kwik Save	352	528	-5
Ladbroke†	1,300	172½	+½
Land Securities†	2,200	665	+3
Laporte	316	639	+6
Legal & General†	6,300	441	+6
Lloyds Abbey	3,700	351	+9
Lloyds Bank†	3,300	577	+15
LASMO	5,100	150	-1
London Elect.	787	718	-21
Lonrho	756	151	+1½
Lucas	15,000	175	-7
MEPC†	310	388	+3
MFI	1,100	114½	
Manweb	481	788	-33
Marks & Spencer†	5,600	378½	+2
Midlands Elect.	579	725	-24
Morrison (Wm.)	302	134	+1
NFC	673	170	
NatWest Bank†	6,600	504	+14
National Power†	1,100	482	+2
Next	782	263	+1
North West Water†	369	513	-1
Northern Elect.	3,300	1053	-75
Northern Foods	670	206	-2
Norweb	86	797	-15
Pearson†	1,300	584	+4
P & O†	2,600	559	+1
Pilkington	6,500	169½	+4
PowerGen†	1,000	519	+6
Prudential†	5,100	298	+3
RMC†	272	922	+2
RTZ†	2,200	748	+10
Racal	1,200	228	+1
Rank Org.†	7,800	386	+2
Reckitt & Colman†	284	630	+2
Redland†	1,200	437	+6
Reed Intl.†	1,600	746	+14
Rentokil†	2,200	216½	+½
Reuters†	5,600	447	+6
Rolls Royce†	6,300	150	
Ryl Bk Scotland†	2,500	402	+4
Royal Insurance†	5,400	283	+11
Sainsbury†	2,800	416	+4
Schroders†	54	1513	+3
Scottish & New.†	278	509	+4
Scot. Hydro-Elect.	1,600	319	+9
Scottish Power†	2,800	332	+10
Sears†	8,200	98½	+2
Sedgwick	737	161	+1
Seeboard	858	422	-7
Severn Trent†	547	605	-4
Shell Transport†	9,400	720	-4
Siebe†	2,500	525	-1
Slough Ests	46	222	
Smith (W.H.)	202	424	-1
Smith & Nephew†	3,800	160½	-¾
SmKl Beecham†	4,400	497	+20
SmKl Beecham Uts.†	4,000	474	+24
Smiths Inds.	490	432	-2
Southern Elect.†	1,000	736	
South Wales Elect.	324	824	-25
South West Water	173	604	-3
South West. Elect.	396	806	-22
Southern Water	3,700	544	+8
Standard Chartd.†	4,100	257	+7
Storehouse	1,300	225	+2
Sun Alliance†	2,600	315	+9
T&N	1,200	160	-1
TI Group†	1,500	334	-3
TSB†	4,800	240	+3
Tarmac	3,600	108½	+½
Tate & Lyle	1,200	435	-1
Taylor Woodrow	231	122	
Tesco†	4,800	253	+6½
Thames Water†	309	480	
Thorn EMI†	656	1044	+5
Tomkins†	3,800	227	-1
Trafalgar House	4,500	64½	-1
Unigate	349	352	
Unilever†	1,400	1179	+7
United Biscuits†	1,100	346	+3
Utd. Newspapers	1,400	494	+6
Vodafone†	12,000	196½	+6½
Warburg (SG)†	166	721	+2
Wellcome†	1,300	1017	+3
Welsh Water	308	600	+5
Wessex Water	546	297	+1
Whitbread†	410	539	+1½
Williams Hldgs.†	2,300	325	+4
Willis Corroon	184	144	+1
Wimpey	624	123	+3
Wolseley†	1,500	360	+5
Yorkshire Elect.	2,700	820	-9
Yorkshire Water	123	516	
Zeneca†	2,400	878	+2

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded.

مكبر من الاصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 23 / Sch)

BELGIUM/LUXEMBOURG (Feb 23 / Frs.)

CZECH REP (Feb 14 / Koruna)

DENMARK (Feb 23 / Kr)

FINLAND (Feb 23 / Mks)

FRANCE (Feb 23 / Frs.)

GERMANY (Feb 23 / Dm.)

GREECE (Feb 23 / Drachma)

ITALY (Feb 23 / Lira)

NETHERLANDS (Feb 23 / Fls.)

NORWAY (Feb 23 / Kroner)

POLAND (Feb 22 / Zloty)

PORTUGAL (Feb 23 / Escudo)

SPAIN (Feb 23 / Pts.)

SWEDEN (Feb 23 / Kronor)

SWITZERLAND (Feb 23 / Frs.)

TURKEY (Feb 23 / Tk Lira)

PACIFIC

JAPAN (Feb 23 / Yen)

HONG KONG (Feb 23 / H.K.$)

INDONESIA (Feb 23 / Rupiah)

MALAYSIA (Feb 23 / MYR)

NEW ZEALAND (Feb 23 / NZ $)

SINGAPORE (Feb 23 / S$)

AUSTRALIA (Feb 23 / Aus$)

SOUTH KOREA (Feb 23 / Won)

TAIWAN (Feb 23 / TW $)

THAILAND (Feb 23 / Baht)

MONTREAL (Feb 23 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Feb 23 / Rand)

NORTH AMERICA

CANADA

TORONTO (Feb 23 / Can $)

4 pm close

INDICES

US INDICES

Dow Jones	Feb 22	Feb 21	Feb 17	1994/5 High	1994/5 Low	Since compilation High	Since compilation Low
Industrials	3973.05	3963.97	3953.54	3987.52 (16/2/95)	3593.35 (4/4/94)	3987.52 (16/2/95)	41.22 (2/7/32)
Home Bonds	96.84	96.44	96.43	105.61 (21/1/94)	93.56 (30/12/94)	109.27 (18/10/93)	54.99 (1/10/81)
Transport	1577.52	1572.05	1586.81	1862.29 (2/2/94)	1371.89 (13/12/94)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	195.69	194.11	193.71	227.86 (3/1/94)	173.94 (22/11/94)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 4002.32 (3990.88) Low 3944.46 (3930.66) (Theoretical) Day's high 3986.65 (3980.69) Low 3961.81 (3952.53) (Actual)

Standard and Poors	Feb 22	Feb 21	Feb 17	1994/5 High	1994/5 Low	Since compilation High	Since compilation Low
Composite ‡	485.07	482.74	481.97	485.22 (16/2/95)	438.92 (4/4/94)	485.22 (16/2/95)	4.40 (1/6/32)
Industrials¶	573.64	571.24	570.00	574.05 (17/2/95)	510.05 (21/4/94)	574.05 (17/2/95)	3.62 (21/6/32)
Financial	45.66	45.37	45.52	46.94 (14/6/94)	39.87 (22/11/94)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	263.04	261.98	261.83	267.71 (2/2/94)	243.14 (4/4/94)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	448.56	447.51	447.80	487.89 (2/2/94)	420.23 (13/12/94)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	787.93	784.82	786.97	803.93 (18/3/94)	693.79 (24/6/94)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Feb 17	Feb 10	Feb 3	Year ago
Dow Jones Ind. Div. Yield	2.72	2.72	2.73	2.59
	Feb 22	Feb 15	Feb 8	Year ago
S & P Ind. Div. yield	2.36	2.38	2.38	2.36
S & P Ind. P/E ratio	19.60	19.57	19.38	29.09

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

● Volume (million)

	Feb 22	Feb 21	Feb 17
New York SE	338,127	308,060	347,923

INDEX FUTURES

■ CAC-40

■ DAX

■ OMX

■ SOFFEX

■ S&P 500

■ Nikkei 225

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Thursday, February 23, 1995

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Const	13.4m	770	+51	Keiyo Bank	6.0m	606	-4
Nikko Secs	9.9m	940	-14	Gunma Bank	5.6m	1030	-30
Fudo Const	6.6m	1130	+60	Keio Teito	4.5m	554	
Joyo Bank	6.5m	760	-25	Nip Steel	4.3m	344	
Penta Ocean	6.3m	798	+23	Central Glass	4.2m	385	-7

4 pm close February 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14¼	13	AAR	0.48	3.5	24	245	13⅞	13⅝	13¾	
22⅛	18¼	ALPharmaA	0.18	0.9	48	387	20⅞	20½	20½	
75½	70⅛	AMP	1.84	2.4	21	1972	u76⅛	75½	75⅝	+⅛
61⅝	53⅜	AMR			27	13445	u62¼	59⅞	61¾	+2⅛
46⅝	41⅞	ASA	1.71	3.8	29	322	45⅛	44⅝	44¾	-½
36	30¾	AbbtL	0.84	2.4	18	13658	36⅜	34⅞	35⅜	+¾
14	13	Abitibi Pr	0.50	3.7	12	174	13½	13⅜	13½	+⅛
24⅛	22⅛	ABM Ind	0.60	2.7	13	41	22⅝	22½	22⅝	+¼
16⅝	14½	Acptncsln			12	23	16½	16⅛	16⅜	
25⅞	21⅞	ACE Ltd	0.44	1.8	8	328	25¼	24⅞	24⅞	-⅛
9¾	9⅛	ACM Gvt In	0.90	9.9	8	635	9¼	d9⅛	9⅛	
7½	7⅛	ACM GvOpp	0.66	9.1		134	7¼	d7⅛	7¼	+⅛
7½	6⅝	ACM Gvt Sp	0.75	11.1		428	6⅞	6¾	6¾	
8⅝	7⅞	ACM Gvt Se	0.90	11.2		1469	8⅛	8	8	+⅛
8½	7⅝	ACM Man	1.08	13.7		257	8	7⅞	7⅞	
7⅝	7⅛	ACM Managd	0.72	9.6		39	7½	7⅜	7½	+⅛
18¾	10¼	AcmeClv	0.48	3.2	9	47	15⅛	14⅞	15⅛	+¼
21½	12⅜	Acme Elect			20	459	18½	18	18¼	+¼
34½	31⅛	Acordia	0.72	2.2	16	11	32¼	32⅛	32⅛	+⅛
11⅞	8⅝	Actava	0.36	3.5	3	273	10⅝	10¼	10⅜	
16¾	12⅞	Acuson			20	7051	12⅞	d12⅞	12½	-¼
16⅝	15⅝	Adams Expr x	0.36	2.2	0	437	16¼	16	16	-⅛
64½	53	Ad Micro	3.00	5.1		119	60½	58¾	58¾	-1
32¼	25	AdvMic	3.00	10.1	8	5865	30⅝	29½	29⅝	-⅞
6⅞	5	Advest Grp	0.16	2.7	30	108	6¼	6	6	-⅛
19¼	18½	Advo Inc	0.10	0.5	19	333	18⅞	18	18⅞	+¼
68⅝	63⅞	Aegon ADR	1.47	2.1	13	11	u68⅞	68⅜	68⅝	+⅜
4⅞	3⅝	Aeroflex			5	105	4¼	4⅛	4¼	
53⅝	46¾	AetnaL	2.76	5.2	12	2431	53⅜	52⅞	53⅛	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

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NYS

AMEX

Have your

Financial Tim

صكا من الاجل

1 pm February 23

NYSE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg Prev. Close
Continued from previous page										
36¼	33⅛	SFePPipe	2.80	7.7	9	44	u36⅜	36⅛	36⅜	+⅛
21⅝	17⅛	SanFeP	0.10	0.5	20	5591	u21⅝	21⅝	21⅝	+⅛
27⅛	24¼	SaraLee x	0.68	2.6	53	5068	26⅛	25⅝	26	+½
45⅛	42	Scana Corp	2.88	6.5	13	261	44⅝	44¼	44½	+¼
16¾	14½	Scecorp	1.00	6.1	10	2621	16⅝	16½	16½	
11¼	9⅝	SchawkA	0.26	2.7	34	z100	9¾	9¾	9¾	-⅛
48¾	42⅞	ScheringP			28	121	44⅝	44	44⅝	+¾
79⅛	71	SchrPl	2.04	2.6	16	2325	77¾	77⅛	77⅜	+⅛
57⅞	50⅞	Schlmb x	1.20	2.1	25	3372	u57½	56¾	56¾	-½
45¼	33⅞	Schwab(C)	0.36	0.8	19	1542	u46½	43⅞	45½	+1⅝
9½	7¾	Schwitzer			7	110	9¼	9¼	9¼	-⅛
22⅞	17½	SciAtl	0.06	0.3	28	1782	u22½	21¾	22¼	+¾
18⅛	16⅞	Scotman	0.10	0.6	12	252	u18⅛	17¾	18⅛	+½
78¾	67⅛	ScottP	0.80	1.0	22	1065	u78⅞	78¼	78½	+⅝
30⅛	26⅞	Scripps	0.44	1.5	18	32	29⅜	29⅛	29⅜	+⅜
21½	15⅞	ScuddrNAsF	0.02	0.1		71	17	16¾	16⅞	+¾
9¼	8⅞	ScuddrNEuF	0.16	1.8		252	u9¼	9	9⅛	
14⅞	13⅞	SeaCnB	0.70	4.7	9	14	14¾	14¾	14¾	+⅛
15½	16⅛	SeaC1.4625	1.46	9.5		27	15⅜	d15	15⅜	+⅛
26	24	S'gate			7	2512	26	25½	25¾	-⅛
30⅝	28⅜	Seagrm	0.60	2.0	14	1639	30⅜	30⅛	30⅜	+⅜
19¾	15¼	Seagull En			188	1476	17⅜	16¾	17	+⅛
[illegible]										

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- W -

[illegible]

- U -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Telekurs

[illegible]

NASDAQ NATIONAL MARKET

1 pm February 23

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

AMEX COMPOSITE PRICES

1 pm February 23

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

FINANCIAL TIMES Friday February 24 1995

AMERICA

Buying spree takes Dow through 4,000

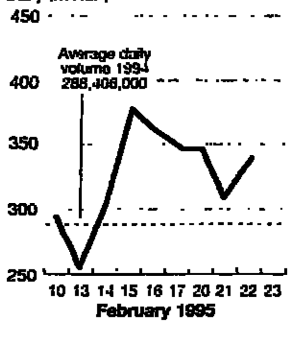
Wall Street

The Dow Jones Industrial Average broke through the 4,000 barrier yesterday as investors were encouraged by comments from Mr Alan Greenspan, chairman of the Federal Reserve, suggesting that there would be no further round of interest rate rises, *writes Lisa Bransten in New York.*

Having hit an intraday high of 4,019.81, the Dow slipped back slightly, and at 1 pm was ahead 41.48 at 4,014.43.

The more broadly based Standard & Poor's 500 climbed 3.57 to 488.64 and the American Stock Exchange composite rose 1.22 to 449.80. The Nasdaq composite advanced 5.90 to 793.83. Trading volume on the NYSE was 229m shares.

NYSE volume



The market had been encouraged on Wednesday by Mr Greenspan's comments to the Senate banking committee when he said that he believed the economy would slow down this year. This was interpreted as a sign that the current round of monetary tightening was complete, or nearly complete. Mr Greenspan reiterated those comments yesterday before the House banking committee.

A soaring bond market added to Wall Street's good mood. In morning trading the long bond rose by nearly half a point, sending the yield down to 7.498 per cent, the first time that the yield has fallen below 7.5 since early September.

Both the bond and equity markets managed to ignore activity in currency trading, where the dollar was again volatile and near Wednesday's low levels against both the D-Mark and the Japanese yen.

In spite of yesterday's initial surge, Lehman Brothers, the US investment house, recommended taking profits and transferring funds into cash.

The bank lowered stock holdings in its model portfolio to 40 per cent from 45, and decreased bond holdings to 30 per cent from 35, while the cash position was raised to 30 per cent from 20 per cent.

Among the strongest sectors were interest rate-sensitive cyclical issues, such as banks and insurance companies. The Morgan Stanley index of cyclical issues gained more than 1 per cent.

Citicorp rose $1 to $44⅞, JP Morgan climbed $1¼ to $62⅞, Chase Manhattan was up $1⅛ at $35½ and Bank of New York gained $1 at $33.

American International Group jumped $2⅞ to $104⅞ after the insurer reported fourth-quarter earnings up 12 per cent from the same period of the previous year.

Several retailers posted declines in spite of the rising market after reporting relatively weak fourth-quarter earnings.

Spiegel lost $½ at $9⅞ after the catalogue retailer reported earnings well below analysts' expectations. JC Penney shed $⅞ to $43, and although earnings were slightly ahead of forecasts the figures were down 2 per cent from the same period of the previous year.

Canada

Toronto stocks were encouraged by the gains on Wall Street, but dealers noted that volume remained light ahead of the country's federal budget on Monday.

The TSE 300 Composite index was up 30.10 at 4,150.20 by midday. Advancing stocks outpaced declines by 191 to 120, with 205 issues unchanged.

Financial services rose 34.72 or 1 per cent to 3,240.88, metals and minerals put on 30.65 at 3,976.39 and oil and gas firmed 5.86 to 4,015.30.

Mexico in reverse

Mexico reversed early gains on a bout of mid-morning selling. The IPC index, which had initially risen to 1,717, fell back 48.36 or 2.8 per cent to 1,659.92.

● CS First Boston downgraded Mexican banks to hold from buy, noting that high interest rates were likely to cause a liquidity problem for the country's corporate sector this year.

SAO PAULO rallied sharply by 7.4 per cent in heavy late morning trade as attractive prices encouraged domestic and foreign investors to buy both blue chip and second tier shares. The Bovespa index was up 2,116 at 30,839 at 1 pm in turnover of R$169.3m ($200.6m).

Brokers said that investors had returned to the market after prices had dropped by some 35 per cent over the last two months.

BUENOS AIRES built on Wednesday's rise, surging by 4.5 per cent in the first minutes of trade. The Merval index was up 10.91 or 3.3 per cent at 341.10 at midday. Traders said the market had been encouraged by rises in the region.

Johannesburg advances

South African equities were firmer on an improved gold bullion price and stronger world financial markets.

The overall index moved up 24.9 to 5,126.4, industrials put on 24.9 at 6,310.9 and the gold shares index gained 11.9 at 1,579.8. The gold price rose to $379.40 an ounce.

Among the main movements, Anglos advanced R2.25 to R185.75, De Beers was R1 better at R82 and SAB put on 50 cents at R92.50.

Remgro was 50 cents firmer at R26 and Malbak up 50 cents at R19.50. Barlows collected 50 cents at R35 and First National 25 cents at R12.25.

EUROPE

Milan ignores bullish signals after mini budget

Italy apart, Wednesday's improved sentiment in the US domestic bond market lifted European sentiment yesterday, and the Dow's upward break through 4,000 gave late closing bourses an additional lift, *writes Our Markets Staff.*

MILAN got what it had been waiting for as the government announced details of the mini budget which aimed to cut L20,000bn off the 1995 budget deficit. The reaction from investors was generally negative and the real-time Mibtel index shed 119 to 10,021. The Comit, calculated once a day, rose 2.81 to 635.32.

Mr Gwyn Hacche, senior economist at James Capel in London, said that the biggest question mark hanging over the budget was whether or not it was credible. There was also a possibility, he said, that in order to get the budget through parliament Mr Lamerto Dini, the prime minister, might have to come to an agreement behind the scenes with Mr Silvio Berlusconi, leader of Forza Italia, and the former prime minister, under which he would concede to an early general election in return for the latter's support for the package. However, there was a risk that the budget proposals could lead to a rise in inflation pressures, Mr Hacche added.

There was further activity in Ferruzzi and Montedison as rumours continued regarding a possible merger: the former rose L71 to L1,253 and the latter by L3 to L1,202.

FRANKFURT saw the Dax index up 25.04 to 2,118.24 on the session, and by 30.18 or 1.4 per cent to an Ibis-indicated 2,126.44 after hours, when the March bund future was 53 basis points higher at 90.89.

Turnover rose from DM4.6bn to DM6.4bn. A 20 per cent rise in net profits at Henkel, the chemicals, washing and cleaning products group, left it DM12.20 higher at DM576; Lufthansa put on DM5.50 at DM206 in spite of a James Capel sell recommendation; and Volkswagen recouped DM10.70 at DM411.20 on short-covering.

Computer industry stocks offered contrasts, with Computer 2000 up DM20 to DM502 on a recovery forecast after a severe 1994/95 setback, but SAP, the software group, down another DM90 to DM1,260 for an 11 per cent drop since last Friday – at which point it had virtually quadrupled from its 1994 low.

FT-SE Actuaries Share Indices

Feb 23 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1308.18	1308.86	1310.17	1311.83	1311.94	1313.00	1311.39	1311.31
FT-SE Eurotrack 200	1370.69	1371.00	1371.43	1373.19	1374.37	1375.73	1373.70	1375.28

	Feb 22	Feb 21	Feb 20	Feb 17	Feb 16
FT-SE Eurotrack 100	1305.02	1309.97	1314.92	1322.06	1329.52
FT-SE Eurotrack 200	1365.08	1367.32	1367.73	1377.81	1383.58

Base 1000 (26/10/90); High/day: 100 - 1313.45; 200 - 1376.61 Low/day: 100 - 1308.98 200 - 1370.64 † Partial

Meanwhile, Bremer Vulkan, the shipbuilder, denied a magazine report that it would show an operating loss for 1994 but, on the day, the damage had been done; the shares fell DM2.50 to DM87.80.

PARIS took its lead from Wall Street, the CAC-40 index rising 22.64 or 1.2 per cent to 1,827.01. Turnover improved from FFr2bn to FFr4bn, helped by a number of block trades believed to have originated from an overseas institution.

One of these was in Elf Aquitaine, which topped the active list, advancing FFr3.20 to FFr380.20 in turnover of FFr661m. Lyonnaise des Eaux gained FFr11.50 at FFr442.50 after it said that it was to form a unit which would invest in water treatment and distribution projects in Asia.

AMSTERDAM's AEX index rose 3.00 to 411.46, with financials strong on bond market gains and publishers up on a perceived undervaluation relative to the market; but other leaders did not fare so well.

Philips retreated Fl 1.60 to Fl 54. The share price was ambushed in New York following Wednesday's results, on mixed signals from analysts on possible pressure on product margins.

Royal Dutch slipped 50 cents to Fl 190.10 as yesterday's 1994 results were seen as positive, but not spectacular; its comments that petrochemicals growth was slowing hit DSM, down 70 cents at FL 133.30; and a 35 per cent net profit gain from the trading group, Hagemeyer, merely allowed one trader to remark that the shares were overpriced as they lost Fl 5.80, or 4 per cent at Fl 139.00.

However, there were second thoughts on Unilever. Weak on Tuesday's results, the consumer products group recovered Fl 3.80 at Fl 201.00.

ZURICH was led higher by Roche, and UBS ahead of the bank's annual news conference today as the SMI index rose 22.1 to 2,632.1, and foreign funds came back into the Swiss equity market.

Roche, the most liquid stock with its certificates SFr110 higher at SFr690, would have been the obvious choice for foreign investors, said Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich. He noted that Switzerland was a hard currency market, but that the SMI was on a prospective 1995 p/e of 12 to 14 against 17.5 for Frankfurt's Dax index.

UBS bearers rose SFr15 to SFr1,053. There was speculation that, instead of the 20 to 30 per cent drop in profits expected by a consensus analysts' forecast, the bank could come up with a 10 to 15 per cent decline.

MADRID featured better than expected results from Uralita, the construction group, and Fecsa, the electric utility; the shares rose Pta85, or 7.4 per cent to Pta1,240 and by Pta14, or 2.2 per cent to Pta663 as the general index closed 2.37 higher at 282.99.

BRUSSELS saw UCB, the chemicals and pharmaceuticals group, boosted by news that its US licensee, Pfizer, had received an initial green light from the US FDA to put a UCB allergy treatment on the market. UCB ended BFr325 higher at BFr23,900, the Bel-20 index rising 5.38 to 1,336.41.

COPENHAGEN's KFX index rose 1.09 to 94.62 with Den Danske Bank up DKr20, or 6.4 per cent to DKr331 on 1994 profits which were much lower, but well ahead of expectations.

TEL AVIV dropped for the third session running, and by 9.2 per cent on the week as provident and mutual funds continued to be plagued by redemptions. The Mishtanim index fell 2.67 to 149.09 in turnover of Shk83m.

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Nikkei, down 1.5%, recovers from big intraday loss

Tokyo

Worries about arbitrage unwinding took the Nikkei 225 average down by some 550 points at one stage before late afternoon bargain hunting left it 1.5 per cent off on the day, *writes Emiko Terazono in Tokyo.*

The index lost a net 276.63 at 17,830.02 after a day's low of 17,553.28 and high of 18,080.34. The fall followed small-lot selling by overseas investors, with the decline accelerating in the afternoon on arbitrage trading triggered by a technical drop in March futures prices.

The Topix index shed 16.71 to 1,385.00 and the Nikkei 300 dipped 3.15 to 254.47. Declines overwhelmed rises by 831 to 195, with 141 issues unchanged. All sectors lost ground, and 138 stocks hit a new low since the start of last year. But in London the ISE/Nikkei 50 index edged up 0.17 to 1,128.48.

Volume totalled 325m shares, against 388m. Brokers remained inactive on the last trading day of February settlements, while institutions were also reluctant to trade ahead of the March book closing. Dealers said arbitrage activity, and companies' cross trades to realise profits on long term holdings, dominated the day's transactions.

Activity focused on futures due to the large cash arbitrage positions against the March futures contracts, which are due to be settled on March 10. One trader noted that anxiety among investors was heightened yesterday after Baring Securities failed to roll over its large futures positions into the June contract.

Arbitrage selling affected banks and securities houses. Industrial Bank of Japan fell Y50 to Y2,440, Bank of Tokyo Y50 to Y,1410 and Nomura Securities Y30 to Y1,740.

High-technology stocks dropped on selling by overseas investors, Hitachi receding Y17 to Y836 and Toshiba weakening Y12 to Y608.

Construction shares were traded actively by some dealers in an attempt to bring back individual investors. Sumitomo Construction, the most active issue of the day, climbed Y51 to Y770, while Fudo Construction appreciated Y60 to Y1,130.

Speculation that the government may raise the tobacco tax to finance the reconstruction of the areas hit by last month's earthquake depressed Japan Tobacco, down Y40,000 at Y816,000. Other privatisation stocks were also lower. Nippon Telegraph and Telephone fell Y14,000 to Y714,000.

In Osaka, the OSE average fell 256.45 to 19,427.56 in volume of 121.3m shares. Profit-taking left Shima Seiki, the machinery maker, down Y110 at Y5,600. Reports that lower than expected demand for its houses would affect earnings growth hit Sumitomo Forestry, off Y90 at Y1,350.

Roundup

Some strong forward movements were recorded among the region's markets as investors generally returned on the buy side.

BOMBAY, for instance, staged a 4.3 per cent rebound after a prolonged downturn, the BSE 30-share index closing 137.92 higher at 3,371.23. By Wednesday the index had lost nearly 1,400 points or 30 per cent since last September when it touched its all-time high of 4,630.54.

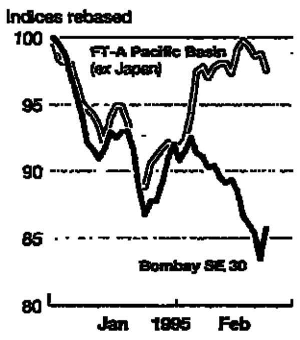
Brokers said the market rose after the Securities and Exchange Board of India (SEBI) said it would look into the possibility of reviving forward trading.

HONG KONG, reflecting technical influences, recovered part of Wednesday's 2 per cent setback which followed a disappointing land auction. The Hang Seng index firmed 67.14 to 7,976.41 in turnover down to HK$2.3bn from HK$2.9bn. Brokers said futures related activity was expected to provide the driving force for the cash market over the coming days.

SHANGHAI's B index rose 1.9 per cent amid reports that the Sino-US trade talks were making good progress. The index added 1.14 at 56.48 in heavy volume of 11.8m shares; turnover swelled to Yn1.3bn, the highest so far this year.

Among the domestically traded A shares, Tibet Pearl, which was listed last Friday, and gained 40 per cent on Wednesday, put on a further 20 per cent to Yn9.99 in volume of

India



Source: Datastream

18.3m shares. The A index rose 6.46 or 1 per cent to 607.39.

SHENZHEN A shares, however, encountered profit-taking after Wednesday's 10 per cent surge, the index of domestically traded shares retreating 4.55 or 3.2 per cent to 136.25.

Rumours that the securities authorities planned to float only 10 new A shares on the bourse this year, less than expectations, also contributed to the turnaround.

SYDNEY made another good advance, helped by firmer gold prices and a strong futures market. The All Ordinaries index added 13.9 at 1,893.5 in turnover of A$545m.

The gold shares index moved ahead 46.9 to 1,660.5 as bullion in Sydney rose in late trade to $379.70 an ounce, from $379.50 at the opening.

News Corp remained popular, advancing 12 cents to A$6.01, a five-month high, with more than 14.5m shares traded.

Placer Pacific climbed 18 cents to A$2.90 and Newcrest Mining 23 cents to A$5.03.

BANGKOK closed higher on late buying in blue chips led by telecoms and banks after the Bank of Thailand reported only a slight decline in foreign reserves for January. The SET index rose 11.19 to 1,277.14 in 101.1m shares dealt.

Two newcomers were the centre of interest. Vinythai topped the active list in turnover of Bt1.47bn, ending at Bt46.50, a premium of Bt11.50 or 32.9 per cent on its IPO price of Bt35. Onpa saw a premium of Bt12 or 18.2 per cent on its IPO price of Bt66, on Bt619.9m turnover.

In the telecommunications sector, up 2.5 per cent, TelecomAsia led with a rise of Bt2.50 to Bt88, and Thai Telephone and Telecommunications moved forward Bt5 to Bt165 on a turnround from loss into profits.

SINGAPORE rallied 1.6 per cent on selective buying of index stocks, brokers reporting thin foreign interest but retail business much improved. The Straits Times Industrial index advanced 32.52 to 2,085.84.

KUALA LUMPUR, too, said buying was retail-led as the composite index gained 8.39 at 949.46. Turnover fell from S$934.6m to S$869.4m.

KARACHI ended with the KSE index 13.45 higher at 1,880.12, after ICI Pakistan's results left the shares Rs9 or 3.8 per cent up at Rs247.

TAIPEI closed below the 6,600 support level as late selling focused on industrials including foods, electronics and plastics shares. The weighted index shed 50.93 to 6,552.95 in T$35.54bn turnover.

SEOUL was unable to follow through an early rise and the composite index lost 11.62 or 1.3 per cent at 907.86, after 927.24. Brokers said smaller stocks tumbled on rumours, which proved to be unfounded, that some investors and brokers would be charged with price manipulation.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY FEBRUARY 22 1995								TUESDAY FEBRUARY 21 1995					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (68)	161.36	0.7	150.72	98.91	123.14	145.50	1.2	4.02	160.25	150.29	98.69	123.27	143.72	181.43	157.85	179.03
Austria (16)	182.32	1.8	170.29	111.76	139.14	139.04	0.8	1.17	179.18	168.05	110.35	137.83	137.87	198.89	167.48	184.94
Belgium (35)	173.02	0.2	161.60	106.06	132.04	129.08	-0.6	4.28	172.73	162.00	106.37	132.87	129.83	177.04	161.53	165.66
Brazil (28)	115.63	1.6	108.00	70.88	88.24	180.17	2.2	1.79	113.80	106.73	70.08	87.53	178.26	-	-	-
Canada (103)	127.59	0.8	119.17	78.21	97.37	129.01	0.6	2.71	126.63	118.76	77.98	97.40	128.25	141.01	120.54	134.49
Denmark (33)	259.56	-0.3	242.44	159.11	198.08	205.02	-0.9	1.60	260.40	244.22	160.36	200.30	206.99	275.27	236.51	269.81
Finland (24)	182.65	0.3	170.60	111.96	139.39	173.91	-0.5	0.97	182.11	170.79	112.15	140.08	174.69	201.41	133.88	149.56
France (101)	164.28	0.3	153.44	100.70	125.37	132.31	-0.1	3.26	163.76	153.59	100.85	125.97	132.39	181.44	157.79	176.06
Germany (58)	149.35	0.6	139.49	91.55	113.97	113.97	-0.2	1.84	148.44	139.22	91.42	114.19	114.19	150.40	128.94	131.71
Hong Kong (56)	321.37	-2.0	300.17	197.00	245.26	318.95	-2.0	3.94	327.86	307.50	201.91	252.21	325.39	433.46	277.40	429.26
Ireland (16)	213.76	0.1	199.66	131.04	163.14	190.45	-0.4	3.41	213.66	200.39	131.58	164.36	191.20	216.60	177.56	191.85
Italy (58)	75.71	-1.5	70.71	46.41	57.78	91.66	-1.2	1.70	76.89	72.11	47.35	59.15	92.77	97.78	67.25	75.88
Japan (484)	145.01	0.4	135.44	88.89	110.66	88.89	-0.1	0.86	144.42	135.45	88.94	111.09	88.94	170.10	139.45	149.46
Malaysia (97)	468.87	-3.5	437.95	287.42	357.83	461.16	-3.5	1.83	486.01	455.83	299.31	373.86	478.04	594.76	398.16	515.19
Mexico (18)	914.21	-3.5	853.80	560.40	697.67	5762.42	2.9	1.88	947.35	888.50	583.41	728.72	5598.40	2468.33	905.27	2468.33
Netherland (19)	226.99	0.5	212.01	139.14	173.23	170.57	-0.3	3.39	225.97	211.94	139.16	173.83	171.10	226.99	191.28	201.00
New Zealand (14)	73.21	0.0	68.38	44.88	55.87	61.24	0.1	4.81	73.20	68.65	45.08	56.31	61.20	77.20	62.05	69.61
Norway (23)	208.79	-0.1	195.01	127.98	159.33	183.29	-0.8	1.99	209.10	196.11	128.77	160.84	184.77	216.03	177.53	201.43
Singapore (44)	342.37	-1.2	319.79	209.87	261.26	229.28	-1.2	1.87	346.40	324.88	213.33	266.46	231.99	401.38	294.66	353.00
South Africa (59)	306.59	0.2	286.36	187.94	233.97	256.65	0.1	2.84	305.89	286.89	188.38	235.30	256.40	342.00	205.55	244.07
Spain (38)	132.28	-0.2	123.55	81.09	100.95	129.39	-0.5	4.39	132.59	124.35	81.65	101.99	130.00	150.21	124.87	146.79
Sweden (48)	245.03	0.0	228.87	150.21	187.00	264.26	-0.5	1.67	245.08	229.86	150.93	188.52	266.57	247.40	196.70	224.98
Switzerland (47)	171.86	0.4	160.53	105.35	131.16	132.60	-0.1	1.84	171.18	160.55	105.42	131.68	132.72	171.86	149.91	166.46
Thailand (46)	144.62	-1.5	135.08	88.65	110.37	140.02	-1.6	3.03	146.88	137.75	90.45	112.98	142.23	-	-	-
United Kingdom (204)	194.42	0.3	181.60	119.18	148.38	181.60	-0.1	4.31	193.92	181.87	119.42	149.17	181.87	205.68	181.11	201.61
USA (513)	198.55	0.5	185.45	121.71	151.52	198.55	0.5	2.85	197.66	185.38	121.72	152.04	197.66	198.70	178.95	181.73
Americas (682)	181.80	0.4	169.81	111.44	138.74	152.44	0.5	2.62	181.01	169.77	111.47	139.24	151.69	-	-	-
Europe (720)	171.73	0.2	160.40	105.27	131.08	148.41	-0.3	3.16	171.38	160.73	105.54	131.83	148.80	176.01	160.59	170.36
Nordic (128)	232.55	0.0	217.21	142.55	177.47	211.53	-0.6	1.56	232.64	218.19	143.27	178.96	212.81	235.72	197.70	215.85
Pacific Basin (809)	152.75	0.1	142.67	93.64	116.57	98.17	-0.2	1.24	152.56	143.09	93.95	117.36	98.41	176.86	145.93	160.69
Euro-Pacific (1529)	160.57	0.2	149.97	98.43	122.53	117.59	-0.2	2.10	160.31	150.35	98.72	123.31	117.88	175.14	154.73	164.68
North America (616)	194.15	0.5	181.34	119.01	148.16	193.63	0.5	2.84	193.26	181.25	119.02	148.66	192.85	194.20	175.67	188.18
Europe Ex. UK (516)	155.46	0.2	145.20	95.30	118.64	128.63	-0.3	2.52	155.18	145.54	95.57	119.37	129.05	158.12	144.12	150.06
Pacific Ex. Japan (325)	229.30	-1.4	214.18	140.56	175.00	203.44	-1.2	3.31	232.53	218.09	143.20	178.87	205.99	273.84	211.19	289.00
World Ex. US (1737)	160.79	0.2	150.18	98.56	122.70	120.46	-0.2	2.12	160.52	150.55	98.72	123.43	120.70	178.65	155.42	166.11
World Ex. UK (2046)	169.93	0.3	158.72	104.16	129.68	135.56	0.1	2.18	169.47	158.94	104.37	130.58	136.77	185.50	165.46	170.92
World Ex. Japan (1766)	188.17	0.2	175.75	115.34	143.60	177.16	0.1	2.96	187.76	176.10	115.63	144.43	177.01	192.00	175.34	186.24
The World Index (2250)	172.09	0.3	160.74	105.49	131.33	143.64	0.0	2.39	171.63	160.97	105.80	132.02	143.57	180.80	165.92	173.62

Latest prices were unavailable for this edition.

FINANCIAL TIMES SURVEY

SINGAPORE

Friday February 24 1995

The champion 'must fight to stay on top'

The city state's growth rate in the past 30 years has been almost unsurpassed, yet the island's sense of insecurity borders on paranoia, writes Kieran Cooke

Singapore's leaders have never been shy about broadcasting their country's considerable achievements. In the Singapore global vision, the world is at an historic turning point. The economies of East Asia are coming to the fore, the west is in decline.

"The tide is rising for East Asia," says Mr Lee Kuan Yew, Singapore's patriarch and senior minister. "We have learned from the west: from their mistakes as well as their strengths. Soon we shall talk to them on more equal terms."

Singapore sees itself as being very much at the centre of this new world. It will become, say its planners, a centre of excellence in the most dynamic region on the globe. The goal is to become a Switzerland in Asia, full of highly-skilled, highly-paid workers. The island republic's financial institutions will enjoy a worldwide reputation.

Hubris and hyperbole, or a reasonable view of the future? Singapore points to some recent developments to support its views. The island republic has been chosen as the venue for the first meeting of the new World Trade Organisation. Mr Goh Chok Tong, the prime minister, is the architect of a proposed summit between Europe and the countries of East Asia.

As it celebrates 30 years as a republic this year, Singapore can look back on a period of growth surpassed by few countries. Between 1966 and 1990, the economy grew by an average of 8.5 per cent per annum, three times as fast as the US. Last year the economy grew by 10 per cent. In 1993 growth was 9.9 per cent. Forecasts are for almost double-digit growth again this year.

Singapore has developed into a producer of a wide range of high technology goods. It is the world's leading manufacturer of computer disk drives. It is becoming a centre of the petrochemical and pharmaceutical industries. It is the world's third biggest refining centre. Its financial services sector rivals Hong Kong and Tokyo in many areas.

A highly skilled workforce, backed up by good infrastructure and a stable political environment, has resulted in most of the world's multinationals setting up sizeable operations in the island republic. Singapore is sitting on a mountain of savings: with a population of under three million, it now has foreign exchange reserves of about US$60bn. Singaporeans are the new rich in Asia. "In Perth, Singaporeans are called birds," says Mr Goh. "When they go into shops they go: 'Cheap, cheap'."

Yet despite Singapore's achievements, there is a heavy sense of insecurity, bordering on paranoia, in the city state. Government officials say that the country, though it is wealthy, is economically fragile. It is vulnerable. It needs protecting at all times.

Singapore's economic vision might be based on Switzerland, but its defence posture is more close to that of Israel. The military hold several key posts in government and in state-controlled companies. Singapore has the region's most highly trained and well-equipped armed forces: it budgets 6 per cent of GDP for defence.

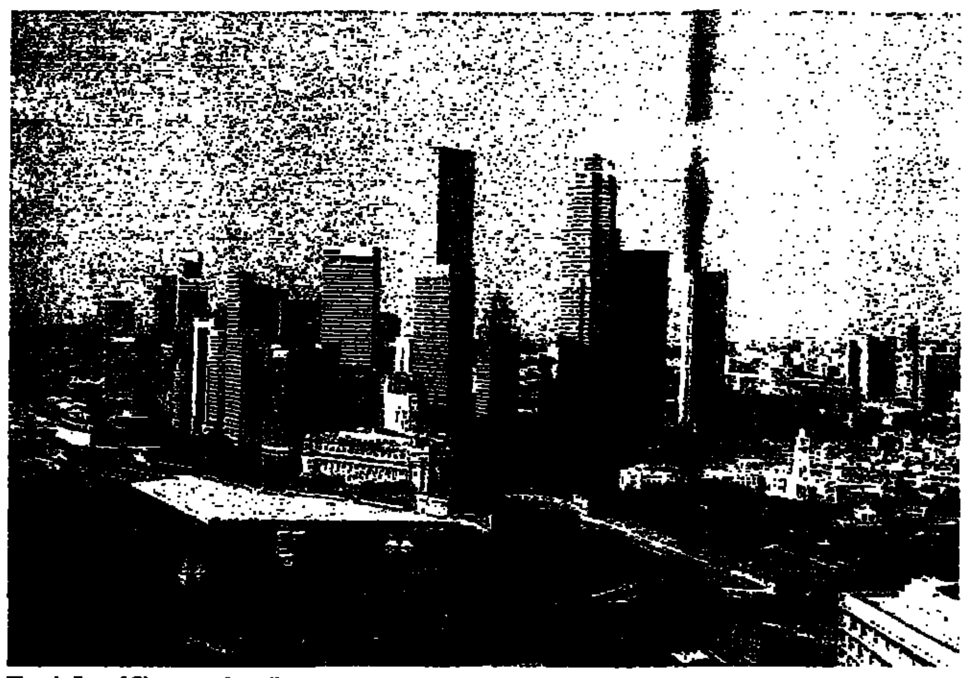
Singaporeans are constantly warned of the dangers of complacency, of becoming flabby, of losing their competitive edge. The government says there can be no rest if Singapore is to achieve its goal of joining the "first league" of nations.

"We are doing well, but like a sports champion, our position is never secure," Mr Lee Hsien Loong, son of Mr Lee and deputy prime minister, told a group of students recently. "After winning one tournament, the champion must immediately start training for the next one. He stays on top only so long as he fights to maintain this leading position. Likewise with Singapore ... we must always stay ahead."

Government opponents say instilling fear and a sense of insecurity in people is a central part of policy. They complain about a lack of debate: the government, like a petulant headmaster, barks its orders. The people, like obedient pupils, are expected to respond.

But is everything as orderly and well planned as it seems? The government has an uphill struggle persuading people to greater efforts in the name of the general economic good. Singapore is an unashamedly meritocratic society.

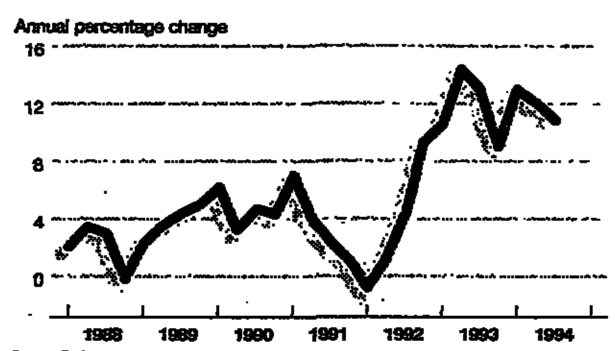
Singapore's professional classes might carp at various government restrictions. But they can be bought off with material gains. However, those who do not make the grade can often not afford to share in the benefits of the country's economic growth: they see little hope of buying a car or moving into better housing. Young people do not necessarily share the leadership's view of life as a constant struggle.



The skyline of Singapore from the sea — Tony Andrews

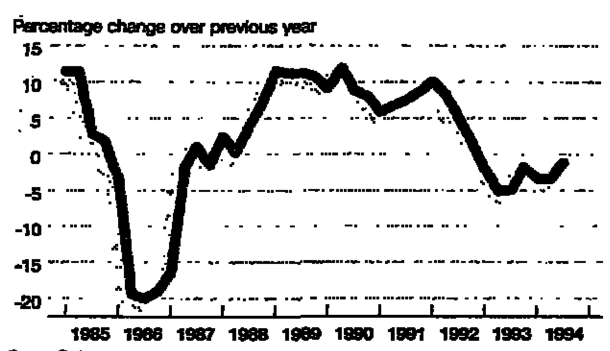
Goh Chok Tong: does he call the political shots? — Trevor Humphries

Productivity in manufacturing



Source: Barings

Unit labour costs



Source: Barings

Mr Goh presides over what is considered to be one of the weakest cabinets since independence. Officials admit that it is difficult to tempt talented people into government despite salaries which make Singapore's leaders among the best paid in the world.

Mr Goh, who took over as prime minister from Mr Lee four years ago, still seems overshadowed by his predecessor. "This prime minister does not see the need to assert himself all the time and to be in the newspapers every day," says Mr Goh. But to many, it is Mr Lee, not Mr Goh, who calls the political shots. Meanwhile Mr Lee junior has made no secret of his willingness to be prime minister.

On the broader economic front, there is the question whether Singapore can continue on its present path of fly-away growth. Inflation has been successfully controlled and overheating averted. But Mr Paul Klugman, writing in a recent issue of the Foreign Affairs journal, says that much of Singapore's growth can be explained by one-time changes in behaviour which cannot be repeated.

Inputs of labour and capital, rather than any great increases in efficiency, have brought economic success. "The miracle turns out to have been based on perspiration rather than on inspiration," says Mr Klugman. He says that between 1966 and 1990 the employed share of Singapore's population went up from 27 to 51 per cent: that cannot happen again.

Recent increases in productivity call into question some aspects of Mr Klugman's argument. But with chronic labour shortages and a growing dependence on a large and potentially destabilising group of immigrant workers, Singapore faces serious problems in retaining the export competitiveness of its industries.

There is also the question of how an economy dominated by multinationals and government-linked companies will compete in the wider world. Critics say the government still wants too much control: as a financial centre, Singapore is held back by the govern-

Continued on Page 8

IN THIS SURVEY

Editorial production
Gabriel Bowman

Kieran Cooke asks if the economy can continue at breakneck speed

The view from the cockpit

Singapore's economy, like a well-tuned flying machine, continues to move at breakneck speed. In the cockpit as always, hands firmly on the controls, is the government. Any sign of economic turbulence ahead and adjustments are quickly made.

The economy grew by 10 per cent in 1994. That follows on 9.9 per cent growth in 1993 and 6 per cent the previous year. Most analysts expect growth in the coming year to be at least 9 per cent.

The performance has surprised everyone – including government planners. Growth for 1994 was originally forecast at between 6 and 8 per cent. Government statisticians – who often err on the side of conservatism if not downright pessimism – said inflation would probably rise above 5 per cent in 1994. Inflation last year averaged 3.6 per cent.

Singapore's economic achievements look even more impressive when placed alongside the rather gloomy forecasts made only a few years ago. In the early 1990s it was fashionable to argue that the island republic had gone ex-growth.

The manufacturing sector would slowly evaporate. Exports would decline. A "hollowing out" of the economy was on the way.

Rising labour costs were making Singapore uncompetitive compared to its neighbours. Productivity was falling. Figures showed that all-important foreign investment was moving elsewhere.

Yet the opposite has happened. Investment commitments in the manufacturing sector went up by nearly 50 per cent last year to S$5.8bn. Of that amount, about S$4.4bn came from foreign sources. Singapore's position at the centre of the world's most economically dynamic economic region explains a lot of the investment growth.

Among the crucial factors behind this have been the provision of good infrastructure, a stable environment and a pool of skilled labour. Multinational companies (MNCs), mostly involved in electronics and other "high tech" sectors, play a central role in the Singapore economy.

The MNC industries are becoming more capital- rather than labour-intensive. By planning well ahead in fields such as education and infrastructure development, Singapore is now cashing in on changes in the way that MNCs operate.

In the late 1980s it was thought that the financial services sector would take over from manufacturing as the main engine of Singapore's growth. But manufacturing has surged back. The sector grew by 24 per cent last year.

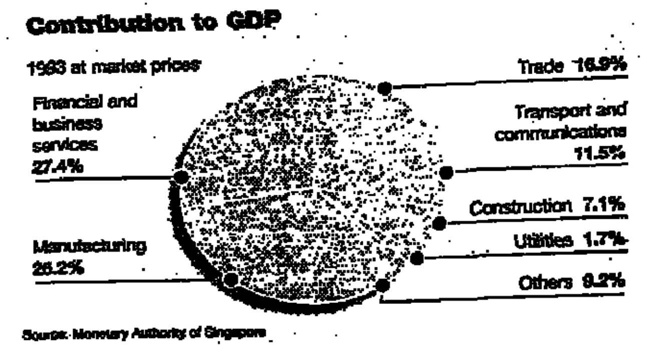
Singapore has succeeded in attracting "top end" investments across a wide spectrum of its industry – from electronics to aerospace, the marine industry to petrochemicals. Companies reliant on relatively unskilled labour might be moving many of their operations offshore but they are retaining and enlarging their capital-intensive, more value-added operations in the island republic.

Investment in more automation and skills in the manufacturing sector has, in turn, caused a big jump in productivity – up about 10 per cent last year. This has enabled Singapore to retain its competitiveness, despite increased costs and the growing strength of the Singapore dollar. Non-oil exports climbed by more than 20 per cent last year.

The electronics sector now accounts for between 50 and 60 per cent of exports. Mr Yeo Cheow Tong, minister of trade and industry, says export growth figures last year were probably exaggerated by changes in processing brought about by the introduction of a goods and services tax. "We expect an average of between 10 and 12 per cent growth in exports in future" says Mr Yeo. "We don't see the mix of our exports changing that much in the coming years – but they will become more sophisticated, more in the high end area."

The fast-track Singapore economy, spearheaded by manufacturing, is now coping with the problems of success. Per capita incomes have risen to levels of many European countries. Singapore has foreign exchange reserves of nearly US$60bn – per head of population by far the biggest in the world.

It is not surprising that the Singapore dollar has become one of the world's strongest currencies – rising 10 per cent against the US$ last year and by about 5 per cent against a basket of other currencies.



But the S$'s strength is causing concern. So far Singapore's export performance has shown no sign of being hurt. But it might take some time for the effect to make an impact on trade statistics. Other parts of the economy, such as the tourist and retail sectors, are likely to suffer if the S$ strengthens further.

"We are well aware that we must try to keep the S$ at a level where it does not have an adverse effect on economic performance, especially on exports," says a monetary official. "At the same time, we operate an open system and cannot stop large amounts of foreign funds parking in S$s."

The exchange rate has been the traditional tool of economic management, used to curb inflation and costs. But coping with liquidity in the system has proved difficult. Bank lending to individuals rose 47 per cent last year. "Asset inflation" has become a big problem. Property prices have gone up by about 40 per cent over the past 12 months.

To control the number of cars on Singapore's roads, the government operates a quota system – with documents obtained through monthly bidding. A Certificate of Entitlement, the piece of paper that allows you on to the island republic's roads, has driven the price of even the cheapest new car to more than S$90,000.

In early February the Monetary Authority of Singapore, the island's de facto central bank, introduced measures which included restrictions on unsecured credit to those with annual incomes of less than S$30,000. Officials said the aim was to stop Singaporeans borrowing beyond their means. But the perception among lower income groups is likely to be that once again they are being penalised in the name of the general economic well-being of Singapore.

Can Singapore keep its position as one of the world's fastest-growing economies? Sceptics point to recent signs of a fall in productivity. Chronic labour shortages are bound to force up wages. Despite the millions invested in R&D and other facilities, Singapore still lacks the ability to create its own technological base.

Its people are skilled, but have had the creativity and enterprise squeezed out of them by an over-protective, intrusive government. Singapore will remain dependent on MNCs and be prey to adverse developments in the region.

Up in the cockpit, the government dismisses the carpings of those in the back of the aeroplane. Over the intercom comes the constantly repeated message: "We must always stay ahead."

■ INVESTING OVERSEAS

Lee's 'Go Regional' directive

When the Singapore government announces a policy change, society quickly responds, especially when the directive comes from Mr Lee Kuan Yew, the island republic's senior minister.

Mr Lee has been the driving force behind a "Go Regional" directive pushed by the government in recent years. The rationale behind the move is simple enough: for years Taiwan, Hong Kong and other countries have been investing overseas. In future years this will pay dividends, as earnings from abroad flow back. Singapore must do the same: having outgrown its small domestic base, Singapore must develop an external economy, or "second wing".

If Singapore does not act now, it is in danger of missing out on developments in the world's most dynamic economic region, says Mr Lee. "East Asia is in the midst of an historic transformation. In 20 to 30 years there will be a belt of industrialised nations from Korea, Japan, China, Vietnam and Asean, including Indonesia. Singapore must retain its niche in this thriving region by upgrading our contribution as the region's economies industrialise."

To judge by government publicity and the local media, Singapore's regionalisation drive has been a great success. Hardly a day goes by without the announcement of some new project in China, Vietnam or Burma involving Singaporean companies.

According to the government's department of statistics the value of Singapore companies' investments overseas rose by 25 per cent in 1993 to S$28bn. But the figures are misleading: many Singapore companies set up holding companies abroad to handle their investment activities. Flows of investment in financial services, a sector in which Singapore is becoming an increasingly important player, are difficult to quantify. Multimillion-dollar dealings overseas by the Government of Singapore Investment Corporation are equally difficult to gauge. Among GISC's recent investments is a US$250m stake in a US-led regional infrastructure fund.

However, it is clear that Singapore is taking its regionalisation drive very seriously. There is no shortage of cash: Singapore's 2.8m people are sitting on a mountain of savings, which stand at about 48 per cent of GDP. The country's foreign exchange reserves are around US$60bn.

Mr Lee says that starting with 2 to 3 per cent of its reserves, Singapore could steadily raise its stake in the region's more stable and higher growth countries. In 15 years, up to 35 per cent of its reserves could be invested overseas.

In the past Malaysia has been the traditional destination for overseas investment by Singapore companies. Singaporeans own several large manufacturing plants in Malaysia, particularly in the state of Johor, a short drive across the causeway which links the two countries. Singapore money has poured into the Malaysian property sector: many Johor residents are resentful of the way the cash inflow has driven up prices of housing and other items.

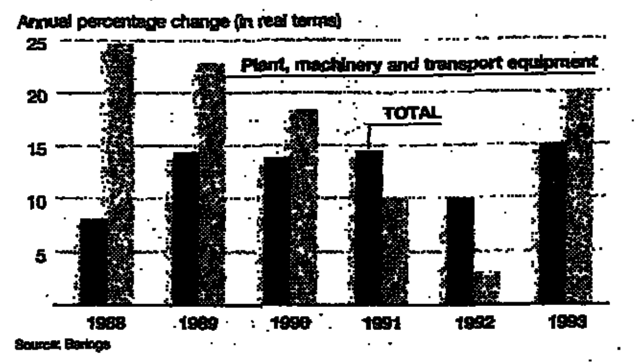
In the late 1980s the southern "growth triangle" linking Singapore with Johor and the Riau islands of Indonesia, a short sea journey from Singapore, came into being. Attention has been focused on the Indonesian island of Batam where Singapore companies have joined up with Indonesia's most powerful commercial concern to develop a 500-hectare industrial estate.

Singapore, faced with rising labour costs and an acute shortage of land, has been urging companies to shift more of their labour-intensive operations offshore. More than 40 companies, mostly multinationals in the electronics sector, have moved to Batam.

Nearby Bintan island is being developed as a tourism centre while Karimun, another island in the Riau group, is the site of a new shipyard and petroleum processing centre. Over the past two years the emphasis has switched from Indonesia – where investments are still limited apart from the Batam development – to China.

As with much in Singapore, the regionalisation drive is government directed and controlled. Singapore's economy is dominated by foreign multinationals and cash-rich government linked companies. It is these government companies and not those in the private sector that are taking the lead in going regional.

Typically, senior government figures act as fixers and salesmen. Mr Lee has used his high level contacts in China to secure deals for government-linked companies. Mr Goh Chok Tong, the prime minister, has gone to India to facilitate the entry of Singapore government-linked companies into projects, mainly in the south of the country.



Under Singapore's policy of "constructive engagement" with the military regime in Burma, Mr Goh went to Rangoon in search of deals: Singapore is now the biggest foreign investor in the country.

Government-linked companies such as Keppel and Singapore Telecom are now investing in shipyards and telecommunications around the region. But the main focus of activities is property and land development. Using expertise gained within Singapore and on Batam, state companies have embarked on a number of ambitious projects to develop industrial parks in China. They are also involved in ventures to develop technology parks in Bangladesh and India.

Singapore companies are among the world's leading hotel owners. These companies, many of which are again government linked, have been busy buying up tourist facilities from Bali to Beijing. Singaporeans are the top foreign buyers of real estate in Australia. Singaporean groups now own some of London's prime hotels.

There have been problems in going regional. Mr Lee and other senior officials have attacked Singapore's business community for preferring to stay at home rather than live and invest overseas.

Mr Lee himself is blamed for fostering a risk-averse culture in Singapore. The island republic still lags way behind either Tawain or Hong Kong in terms of overseas investments, particularly in China.

Singaporeans are relatively inexperienced in the rough and tumble of international business. Some government investments, notably in high-tech ventures in the US, have gone awry. Singapore emphasises that it has good connections or "guanxi" in China. But while this might be true at senior government levels, it does not stop Singaporeans from being duped by their more artful counterparts in China. Many have lost money.

The government itself worries that those who do venture overseas might pick up bad habits.

"People are put in the way of temptation," says Mr Lee Hsien Loong, the deputy prime minister and eldest son of Mr Lee. "But we cannot say that because of this we are going to stay at home. We have to go, we have to do business."

Kieran Cooke

Gordon Cramb reports on a clampdown on the banks

Lending bubble is deflated

A placard outside a branch of the privatised DBS Bank, advertising personal loans, exhorts: "Live tomorrow's lifestyle today". The ever-vigilant Monetary Authority of Singapore, the quasi-central bank, decided this month that too many people were doing exactly that, and imposed consumer credit curbs.

According to one senior financial official, retail banks in the country were "being too lax in their loans", and the concern was that Singaporeans were shedding their thrifty habits and borrowing beyond their means. Worse, they were doing so to fund consumption rather than fixed investments.

The measures were carefully targeted although jerkily introduced, with an announcement early this month followed by more than a week of clarifications about their timing and scope. They affect car loans, restricting the percentage of the purchase price and the repayment period, and unsecured personal loans to lower and middle income earners.

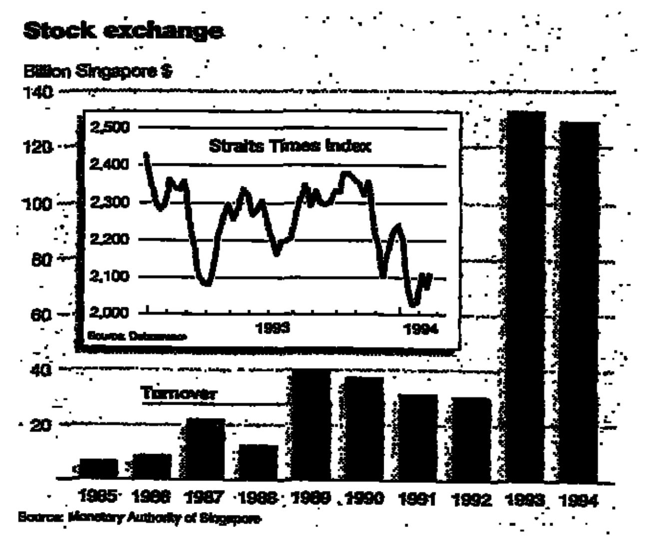
Those willing to pay Singapore's already penal prices for private vehicle ownership can still borrow a – relatively generous – maximum of 70 per cent of the total outlay over seven years, while borrowers for other non-property purchases must earn at least S$30,000 a year and the ceiling on their advance will be two months' salary.

The moves are thought to be enough for the moment to deflate a threatened lending bubble while avoiding an impact on the wider economy as an interest rate increase would have done. Singaporean rate movements roughly follow those in the US, but they were not immediately increased in line with the Federal Reserve's half-point boost this month.

Bank lending to individuals, now the biggest single market, shot up last year while loans to the construction sector were flat and funds provided to manufacturing just nudged higher. Margins have been best in the personal loans business, which has attracted foreign entrants such as Citibank of the US.

The island's big four local banks are expected to report strong profit growth in their annual results due out early next month, with net earnings increases ranging to 30 per cent or more. But for none of them is the performance thought likely to have been as strong as 1993. Even before the MAS credit clampdown, analysts expected a further deterioration later this year.

As the banking market begins to mature, the big four are seeking new opportunities elsewhere in the region. Indochina is a target and they were among the first back into Rangoon as Burma opened up. While the Singapore government favours a greater regional presence for the domestic business sector at large, the MAS is anxious that financial institutions maintain the standards of prudence which have kept the island free of bank failures.



At home, the development of fee-based income is seen by many as a way to sustain growth without putting upward pressure on bad loan provisions which stand at a modest 2 to 3.5 per cent. The prospect was given substance last year when Mr Lee Kuan Yew, senior minister, unveiled a phased series of measures aimed at giving a leg-up to the still small fund management industry. These also brought a further freeing of funds tied up in the Central Provident Fund, the government's compulsory savings scheme for employees.

From last month unit trusts approved under CPF rules have been able to invest in foreign stocks and bonds – but only those traded on the Stock Exchange of Singapore, and the total holding must be a fifth or less of the fund's value. In addition, the more sophisticated CPF fund management accounts, restricted to members of the scheme with S$200,000 or more at their disposal, have been allowed to extend their reach to other regional markets, including Malaysia and Hong Kong.

A second stage, which does not come into effect until 1997, will permit the approved unit trusts to enter those same markets to a ceiling of 40 per cent. In 1999, the limit rises to 50 per cent and each type of vehicle will be able to broaden its portfolio to include capital markets in Japan and the west.

Institutions launching unit trusts must, among other conditions, have at least S$500m already under management in Singapore, must place 10 per cent of the value of the fund in Singapore banks or government-backed securities, and may not buy on margin or speculate in derivatives on the fund's behalf.

One way to liberalise and give a further impetus to investment banking would be to allow a greater international use of the Singapore dollar. The currency is freely traded but only locally based entities can borrow in it. The financial authorities are loth to subject the unit to the vagaries of speculators, and do not want it to become the reserve currency of the Asean region and beyond.

After strengthening against its US counterpart by 10 per cent last year, the Singapore dollar was barely touched by the ripples of Mexico's financial crisis – by contrast, the stock market fell more than 14 per cent before rallying.

Foreign banks operating in the republic have been mounting a case for companies from elsewhere in the region to be allowed to float on the stock exchange through issues denominated in Singapore dollars. The authorities have not ruled this out as a possible future first window to open – but the emerging markets turmoil of the past weeks has, if anything, pushed the idea further into the background.

Still, there is no shortage of foreign currency business. The market in offshore lending continued to recover in 1994, with balance sheets of the so-called Asian currency units up by 8 per cent to US$416.5bn. Average daily volume in foreign exchange transactions grew by more than a sixth, topping US$100bn for the first time.

In all currencies except the yen, Singapore has been gaining forex market share from Tokyo. This has distressed the Japanese financial authorities, but they are said to have done little to ease regulatory constraints and are powerless to bring down the costs of a Tokyo operation.

With a few international banks moving from Hong Kong and Sydney, a long list has opened or expanded dealing rooms in Singapore in the past year. Apart from being slightly closer to European time zones, the island has developed a speciality in handling the exotic currencies of the region.

Dealers with the requisite experience have thus found themselves in a seller's market for their services, and domestic banks are facing higher salary bills to keep the specialists they have trained. That is one more reason why, for the big four, tomorrow's lifestyle may not be as good as today's.

Kieran Cooke explains why the government appears to be so sensitive to criticism

The fear of losing political control

Late last year Catherine Lim, a Singapore writer, wrote an article in the local press gently criticising the government of Mr Goh Chok Tong. Ms Lim hinted that Mr Goh, prime minister since 1990, was still overshadowed by his predecessor, Mr Lee Kuan Yew.

Earlier promises made by Mr Goh of a more open, consultative style of government had been abandoned, said Ms Lim. Instead, the old authoritarian style of Mr Lee had returned.

Paranoia is part of the Singapore psyche. Singaporeans have a word for it – "Kiasu" – a Hokkien Chinese dialect term meaning being afraid to lose. There is paranoia about falling behind in the economic race. There is paranoia about what is considered to be the corroding influence of many western ideas. And there is paranoia about any sign of losing political control.

Paranoia is part of the Singapore psyche. There is even a word for it

Mr Goh's People's Action party (PAP), in power since Singapore was given self-government in 1959, holds 77 of the 81 seats in parliament. The PAP's influence stretches into almost every facet of Singaporean life.

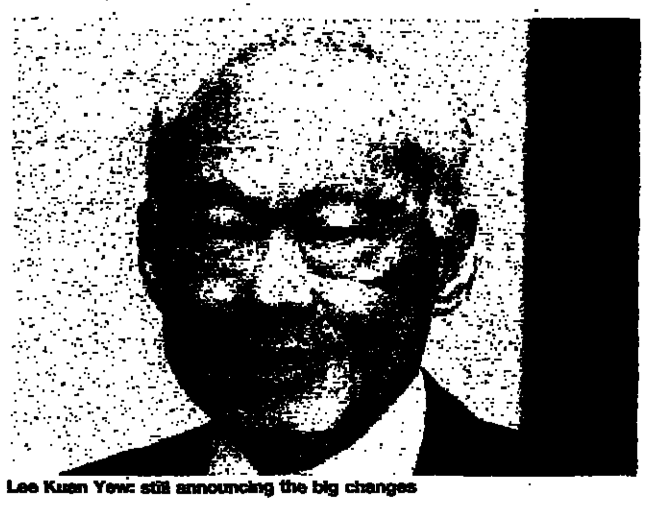
Yet the reaction that Ms Lim's article provoked from Mr Goh and his PAP administration was more that of a government teetering on the edge of collapse than that of one of the world's most enduring political machines.

"When my authority is being undermined by wrong observations, I have to correct them, or the view will prevail that I am indeed not in charge of Singapore," said the prime minister.

"Singapore is not America," said Mr Goh's press secretary in a lengthy letter to a local newspaper. "It is small and fragile and needs a strong and fair government to survive.

"If its government is continually criticised, vilified and ridiculed in the media and pressured by lobbyists as in America, then the government will lose control. The result will not be more freedom, but confusion, conflict and decline."

The letter went on to say that Singapore's political boundaries – what the golf-playing Mr Goh refers to as "O.B. markers" – would only be enlarged "pragmatically and gradually".



Lee Kuan Yew: still announcing the big changes

Is Mr Goh's government – and Singapore – as fragile as officials perceive it to be? It would not be surprising if most Singaporeans saw Mr Lee, prime minister from 1959 to 1988 and head of the PAP since the 1950s, as still the dominant political figure.

Mr Lee serves as senior minister in Mr Goh's cabinet. Mr Lee Hsien Loong, Mr Lee's eldest son, who very much echoes the tough, no nonsense style of his father, is deputy prime minister. Mr Lee junior has made no secret of his willingness to serve in the top job.

When Mr Goh came to office he said he would be his own man. "I intend to be myself and set my own style," he said.

Yet over the years it has been Mr Lee, and not Mr Goh, who has announced many of the important policy changes. It is Mr Lee, rather than Mr Goh, who has made highly publicised trips to China and elsewhere in the furtherance of Singapore's economic interests.

An election in 1991 resulted in the PAP's worst vote tally since 1968. Four opposition MPs were elected to parliament – more than for several years. A further slide in the PAP's popularity was evident in a presidential election in 1993.

There is now talk of Mr Goh holding another election – well ahead of time – in order to try, once again, to strengthen his mandate. Some feel the election could be held before the middle of this year.

On the face of it, the PAP is in a strong position. The economy is expanding at breakneck speed. Per capita incomes are climbing to levels near to Britain and other European countries. Yet people are not content. In a speech in early February Mr Lee Hsien Loong said that recent surveys had shown that more than half those polled felt that their lives had not become better over the past five years. This was amazing, said the deputy prime minister.

Lee Hsien Loong: no secret about his ambitions

Not so, say government critics. They say that Singapore is becoming a more unequal society with an increasingly wealthy elite presiding over a lower class that finds the cost of everyday life ever harder to bear. The government eschews welfarism as a disease which saps initiative and threatens economic decline.

Many people find it impossible to share in the benefits of a wealthy, economically vibrant society. The cheapest new car in Singapore now costs about S$90,000. Those who want to move to better housing find prices are out of their reach.

In February, in order to stop inflationary pressures building up in the economy, the government brought in curbs on bank lending for the purchase of cars and property.

Those measures – which include restrictions on banks giving unsecured loans to those earning less than S$30,000 a year – are causing further resentment among low wage earners. This could well translate into more opposition votes at the next election.

The opposition is given little coverage in the local media, which in general faithfully reflects government opinion. Opposition figures face other difficulties. In the course of a contempt case the government brought against the International Herald Tribune earlier this year the Attorney-General said it was common knowledge that government politicians sued opposition figures for damages for defamation when circumstances justified.

"It is also public knowledge in Singapore that following results of such legal proceedings, a number of opposition politicians have been subjected to bankruptcy proceedings or adjudged bankrupt," said the Attorney-General.

Dr Chee Soon Juan, a member of the small opposition Singapore Democratic Party, acknowledges that the PAP has done many good things but says it is caught in a time warp and is out of touch. "People are tired of paternalism and elitism," says Dr Chee.

Mr Goh cannot be entirely blamed for the steady slide in the government's popularity reflected in the polls. This was already happening under the stewardship of Mr Lee. The PAP is a secretive organisation which still operates on a Leninist style "cadre" system brought in by Mr Lee in the 1950s.

In the run-up to a recent party meeting Mr Tony Tan, a party veteran and a man seen

"The party is in a time warp. People are tired of paternalism and elitism"

as one of the few willing to stand up to Mr Lee, warned of the risk of the party developing "political sclerosis". He said the PAP's thinking and policies were in danger of becoming fossilised.

"If we are not alert to this danger we will wake up one day to find that we have been left behind by a younger electorate whose aspirations and aims are different from those of the party," said Mr Tan.

■ OFFICIAL SALARIES

Goh earns four times as much as Clinton

Singapore's ministers and civil servants are paid more than most of their overseas counterparts. And the differential is set to widen further still under a government policy to "benchmark" the remuneration of ministers and senior civil servants against the highest private sector salaries.

The new benchmarks will take senior ministerial salaries from around S$600,000 (£278,000) a year to more than S$800,000 (£370,000) in due course. Mr Goh Chok Tong, the prime minister, stands to gain a significant increase from his current S$1.15m (£531,000), already four times the pay of President Bill Clinton.

Salary increases of a similar scale are also being extended to civil servants. The salary of permanent secretaries – the senior officials in charge of government departments – is set to rise from about S$350,000 (£162,000) a year to about S$430,000 (£198,000) as a first step. This is more than double the going rate for their counterparts in Whitehall, who are responsible for a population twenty times that of Singapore.

The new civil service benchmarks are complex. For a typical high-flyer at the age of 32, the benchmark will be the *average earnings of the 15th highest paid private* sector person of the same age drawn from a basket of six professions – namely bankers, accountants, engineers, lawyers, multinationals and local manufacturing companies. In 1992, this figure was S$199,000 (£92,000) – one-third higher than the 1994 salary for the "equivalent" civil servant.

Increases of this order are set to be extended to the whole administrative class of 215 civil servants – the cream of Singapore's 30,000-strong civil service.

Such salary increases put Singapore in an international class of its own. Not only are its ministerial and civil service salaries far higher than those of most other countries, but the determination to peg them rigorously to the highest private sector levels is almost unique.

What is the justification for the increases, and how is the Singaporean elite able to get away with it? The UK government faced a political storm this month over a decision to increase the salary ceiling for permanent secretaries to £150,000, which is more than most will actually receive and far higher than the ministerial salary ceiling.

The arguments are set out in a government white paper, *Competitive Salaries for Competent and Honest Government*, published last autumn.

"Competent political leadership is crucial to good government", it declared. "Singapore must draw its ministers from among the most outstanding and committed citizens", without which it will lose its "vital competitive edge, which enables it to thrive and prosper, and compensates for its smallness, vulnerability and lack of resources". The drive against corruption is an important sub-text.

There are three obvious ripostes to this line of argument:

- Existing ministers took their posts at the existing salaries.
- There is plenty of competition for their posts.
- Ministerial office ought to be a matter of public service.

The first argument is not addressed, although the prime minister has indicated that he will not take the salary increase due to him.

The second argument is answered by the bold assertion that there are few "suitable" candidates for office, and in a period of relative stability "bringing them into politics becomes even more difficult".

As for public service, a value highly esteemed by Confucius, the Chinese philosopher much cited by ministers, the government says it has made provision for the "sacrifice involved in becoming a minister" by setting the new salary benchmark at a one-third discount to the average earnings of the top four earners in six professions – which amounted to S$1.22m (£564,000) in 1992.

The same arguments are applied by the white paper to civil servants, although here they are backed up by statistics on recruitment and retention, and by a recent report from the World Bank.

The report, on the "East Asian miracle", proclaimed that "in bureaucracies, as in nearly everything else, you get what you pay for," and specifically cited Singapore, "which is widely perceived to have the region's most competent and upright bureaucracy, and pays its bureaucrats best".

On retention, the white paper notes that there are fewer administrative grade officers in their 30s than in their 40s, because of a loss of able officials to the private sector in the mid-to-late 30s. According to Mr Tan Boon Huat, a deputy secretary in the prime minister's office, more than half of some age cohorts in this range have been lured by the world outside.

How can the government get away with salary increases on this scale? On the political level, it feels sufficiently secure not to need to appease its critics. And those critics are less vocal than their counterparts elsewhere – in part, at least, because the evidence of Singapore's success gives its official class an unusually strong claim to have delivered what the people want in economic terms.

In a regional context, the justification for large salaries as an antidote to bribery and corruption carries greater weight than in western democracies.

Behind the salary issue lies a deeper consideration: the determination of Singapore to retain a traditional ministerial and civil service structure, in which a group of the most able graduates are recruited young into politics and administration and spend the rest of their career there.

Elsewhere, "reinventing government" policies of privatisation, commercialisation and contracting out are steadily undermining established bureaucracies. A "revolving door" is opening wide between the public and private sectors, through which politicians and officials jostle to turn their governmental experience into large salaries.

In a decade or so, Singapore may be a good yardstick against which to judge the success of these trends.

Andrew Adonis

Education: exam successes are all-important, writes **Andrew Adonis**

Children face pressure

No public activity is more vital to Singaporeans than education. While governments worldwide declaim its importance, in Singapore parents and students believe in its power with a passion. Success in examinations means prestige, a well-paid job, and a successful life. For a government which takes social engineering for granted, the task is to identify national needs and design the education system accordingly.

Ask a member of the Singaporean elite why education is so important, and two stock responses are forthcoming. First, the Confucian tradition, with its reverence for learning. Secondly, the economic imperative of a small island with no natural resources besides sea and geography, and with only the skills of its people with which to forge a livelihood.

The dedication of parents to conferring these skills starts shortly after birth. Finding a good kindergarten is *de rigueur* for the responsible mother. Kindergartens are private, costing typically S$100 (£46) a month. Their task is to ensure that young children are well on the way to mastering the "three Rs" – or four, if the obligatory second language (Chinese/English for most Singaporeans) is taken into account – by the time they start primary school at the age of six.

At the primary level, Singapore increasingly resembles Japan in the pressure imposed on children and the army of private tutors employed to occupy the evenings supplementing the school diet. Two pressures are particularly evident: the so-called "PSLE", the national exam taken at the age of 11 or 12, scores in which help to determine choice of secondary school; and, for the large number of "Chinese" parents with English as the mother tongue, the struggle to make their offspring proficient in Mandarin. Parents often take their holidays to coach their children in the run-up to exams.

The secondary system has undergone radical reform since 1988. There are now "independent", "autonomous" and "government" secondary schools. Each receives a roughly similar per capita grant from the ministry of education, and prepare pupils for GCE "N" and "O" level exams set and marked by the Cambridge board in England.

In government and autonomous schools, fees are nominal. The eight independent schools, which are highly selective and sought-after, charge fees to parents of between S$1,000 (£463) and S$2,000 a year, and use the extra money to provide smaller classes and a broader range of curricular and extra-curricular activities than the other schools. Government scholarships are available to the very able, which reduces discrimination against the less well-off.

Mr Lee Yock Suan, education minister, cites Britain's grant-maintained state schools as an influence on the decision to promote a semi-private secondary sector. Their purpose is not only to promote excellence – "and if parents want more, they should be prepared to pay for it," he says – but also to encourage creativity and social skills in children used to drilling and rote learning.

Attainments in public exams are remarkably high. In 1993, 70 per cent of the 15-16 year-old age group achieved three or more O-level passes (up from 41 per cent in 1978), and 22 per cent of the 18-19 cohort gained the equivalent of two A-level passes and two AO-level passes (up from 9 per cent in 1978).

Without four or five top grades at O-level, pupils are unlikely to proceed to A-level and university, which is the aspiration of most parents for their children. At the post-15-16 age level, government policy is to preserve the tripartite system established over the past two decades.

It is known as the "20/40/20" policy: A-levels in a "junior college" leading to university for the top 20 per cent; polytechnic leading to a vocational diploma for the next 40 per cent; and technical institutes conferring practical skills on the next 20 per cent. Little is said about the bottom 20 per cent.

In design and intent, it is akin to the German system, upon whose *Fachhochschule* (technical colleges) the polytechnics are modelled. The four polytechnics, providing 48,000 places for 16-19 year-olds, are critical to the system's success.

Unless their diplomas are esteemed by Singaporean industry, a drift towards universities as the sole form of higher education (as in the UK) is bound to take place. This is particularly so for the more demanding and creative courses, such as information technology, where the entry requirements are as arduous as for some university courses.

The polytechnics appear to be succeeding on both scores. Engineering accounts for the majority of their courses. Competition between them is intense; facilities are mostly excellent; and success in job placement is high.

A visit to Ngee Ann polytechnic, founded 30 years ago but expanded dramatically in the past decade, reveals an institution proud of its status as a "school for industry", demonstrating intimate links with companies and overseas institutions, and boasting a 95 per cent placement rate.

There are two domestic universities, the National University of Singapore and Nanyang Technological University. If NUS is Singapore's Harvard, NTU is closer to Loughborough University of Technology. Between them they account for some 19 per cent of school leavers, up from barely 4 per cent 15 years ago.

Another 5 per cent or so go to overseas universities, with institutions in Australia, the US and the UK (in that order of popularity) accounting for most students. Price and perceived proximity are in Australia's favour.

In a talk to students not long ago, Mr Lee Kuan Yew, the former prime minister, said that if he "had his time again" he would go to the US, not Cambridge. But a recent survey suggests that British universities remain the most highly esteemed.

Is Singapore producing an over-educated population? "There is a bit of a danger of too many going on to university," says Mr Lee, the education minister.

"We want to avoid a paper chase, but right now employment prospects are good, and students rightly want to do as well as possible."

By the time children start primary school they are well versed in the three "Rs" David Hayes

Telecommunications: Singaporeans use their phones and pagers incessantly

Highly profitable connections

Singapore Telecom's spherical logo signifies the group's international ambitions. It is not a pretence. Besides a network as modern as any in the world, Singapore Telecom is highly profitable. It has built up a notable portfolio of overseas ventures and is one of the first of Asia's state telecommunications operators to have been privatised.

Unusually for a telecoms privatisation, the decision in 1993 to sell 10 per cent of Singapore Telecom's equity was motivated neither by the dictates of the local finance ministry nor by the imperative to raise investment capital. For the company, privatisation was a means to achieving a sharper competitive edge in the run-up to liberalisation and the rise of global telecoms alliances.

For the government, it was the opportunity to launch a Singaporean version of "popular capitalism" by making the shares attractive to a wide public. So wide, in the event, that about nine-tenths of adults who could apply did so, each securing an allocation worth about S$1,100, with loyalty bonuses to encourage ownership for at least six years.

The shares are a safe bet. Singapore Telecom retains a monopoly over its core fixed-line business until 2007. Last year the company reported pre-tax profits equal to nearly half its total turnover.

Yet monopoly appears to be breeding neither inertia nor inefficiency. Its profit margins would not be sustainable in a competitive domestic market. But with its customers conveniently located in a small business district and large apartment blocks, and with no rural hinterland to service, Singapore Telecom generates its profits from a low cost and price base.

The annual line rental charge for residential customers is S$100 ($46) a year, barely two-thirds that of British Telecommunications. Local call charges are 1.4 cents – about two-thirds of one pence – per minute at peak hours, and half that off-peak. In terms of coverage, about 45 people in 100 have a phone line in Singapore, a line penetration level close to that in Hong Kong, Japan and Australasia.

Singapore Telecom plausibly claims to have more payphones per head than any other country. It has also surged ahead in mobile communications: the island's 3m people own more than 700,000 pagers, and the penetration of cellular mobile phone, at 7.3 per 100 people, is marginally higher than Hong Kong, among the highest in the world outside Scandinavia.

Mr Andrew Harrington, Asia-Pacific telecoms analyst at Salomon Brothers, says: "Singapore is a prime example of a country which has developed its telecoms network to world competitive standards in a largely closed market, although even Singapore is finding it necessary to open up in response to the perceived advantages of liberalisation."

Two pressures have driven modernisation: growing domestic demand and the high priority given by the state to infrastructure investment – particularly communications infrastructure, which has long been regarded as critical to the island's future as an Asian hub for multinational companies.

For Singapore Telecom, domestic expansion has involved little more than meeting the huge national appetite for communications services. Singaporeans use their phones and pagers incessantly: they do not need glitzy marketing campaigns to tell them "it's good to talk". Pagers are vital teenage fashion accessories, and only price is preventing mobile phones from following suit.

A telling sign of the strength of underlying demand is the fact that, in contrast to European operators, Singapore Telecom has not subsidised the high price – more than S$1,000 until recently – of handsets for the new digital cellular (GSM) mobile phone network.

However, in Asia demand for phones has never been enough to ensure their supply, as demonstrated by the inadequate telecoms networks of most of the other "tiger" countries, whose monopoly operators were starved of investment in the 1970s and 1980s. Singapore has been upgrading its network since the mid-1970s as part of a government strategy, settled in the wake of British withdrawal, to secure the country's future as a regional trading hub.

The latest vision statement, "IT 2000", is for Singapore to be an "intelligent island", criss-crossed by a telecommunications superhighway, by the turn of the century. In terms of infrastructure, "IT 2000" is a modest goal. The business district is fully supplied with fibre-optic links, and about one-third of all residential blocks also have fibre telecoms links capable of carrying multimedia services.

The challenge is to turn the capability into reality, beyond the business sector. Pilot projets are about to start with video-on-demand in the home and with networked personal computers in the classroom, ensuring that Singapore is in the vanguard of the development of consumer and educational multimedia services. Singapore Telecom has stakes in two UK cable television and telephone franchises, which it is treating as additional laboratories.

"It is wrong to say that we face no competition," says Mr Koh Boon Hwee, the company's chairman. "Our competition is every other commercial centre in the world, particularly Hong Kong in this region." He regards domestic competition as "inevitable" – starting with mobile services, where new operators are to be licensed from 1997 – but insists that "it will only bring a new dimension to what is already a highly competitive market." One fact underlines the point: half of the company's revenue comes from international calls, most of them generated by the corporate sector.

For the Telecommunications Authority of Singapore, the regulatory body, overseas competition is the critical factor in pricing. It assesses Singapore Telecom's tariffs in accordance with a basket of international phone prices which includes Hong Kong and other leading commercial centres.

The company is inevitably a small player by international standards. At S$3.19bn last year, including the postal service which is part of the group, its turnover was barely one-ninth that of BT. But it is leveraging its cash flow, reputation and geographical position to secure itself a leading role in the region. The group has joined the international alliance – "World Partners" – formed by AT&T, the largest US operator, to provide one-stop cross-border services to multinationals. It is also a founder member of an Asian alliance formed for the same purpose.

On its own account, it has invested more than S$500m in overseas ventures, mainly mobile communications operations in other Asian countries.

Andrew Adonis

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Gordon Cramb on the country's biggest foreign investment project

Basic capacity to be doubled

Singapore's biggest-ever foreign investment project will take shape over the next two years on a set of islands 3½km (offshore, where a S$3.4bn second petrochemical complex is being built by a group of local and international partners including Royal Dutch/Shell, Phillips Petroleum and Sumitomo Chemical.

Ground was broken in December for the development, which when added to existing sites on the islands will all but double present capacity in the industry's basics. It will allow the downstream producers involved to enter higher value-added sectors as well as markedly boost their own overall volumes.

The government is reaching into its own deep pockets and, as often in Singapore, its ambitions are even longer-term. It is putting in S$6bn over 35 years in land reclamation to link the facilities on the islands while providing space for further sites which it believes 21st century demands will require.

Such is the scale of that programme that the seven islands just south-west of the financial district will eventually become one – Jurong Island – and their present 1,000-hectare area will treble. This means filling in an ocean acreage nearly four times that which was needed to build Japan's new Kansai airport in Osaka Bay.

It comes at a time when the country's petrochemical manufacturers have squeezed every drop out of their current capacity. Petrochemical Corporation of Singapore (PCS), the upstream producer, has through upgrades and eliminating bottlenecks lifted output at its 11-year-old plant from the original 300,000 tonnes per annum to 440,000 tpa of ethylene.

When its new naphtha cracker comes on stream, scheduled for the second quarter of 1997, it will deliver another 428,000 tpa of ethylene, and 214,000 tpa of propylene to add to the current 225,000 tpa.

PCS, jointly owned by Shell and a Sumitomo-led Japanese consortium, will continue to sell nearly all its output to its downstream partners – an unusual integrated arrangement which means that each of the new installations must begin operation at the same time, or benefits will be lost. A capital-intensive industry such as this cannot afford to run below capacity for long, and as a closed complex "we have to work in a synchronised manner," says Mr Takayuki Okada, PCS managing director.

When the expansion was agreed a year ago, petrochemical product prices were at 10-year lows amid global overcapacity brought on in part by commissioning new facilities elsewhere in Asia. Since the second half of 1994, however, an improved world economy and strong regional demand have brought a rally in prices. The partners in the project thus face the prospect of missing out on what look likely to be two good years during which they will suffer declining overall market share before they can begin deliveries at their enhanced maximum levels.

Petrochemical makers have squeezed every drop from current capacity

Some industry watchers suggest that they talked too long about the expansion, which was four years in the planning. This points to an arguable drawback in the closed-complex system, where consensus has to be reached among all the main participants before funds are committed and work can start. Still, in an industry where profit cycles can stretch to around eight years, the early operational period of the new facilities has every chance of being lucrative.

In the meantime, the companies will benefit from a local income stream better than it has been for some time. And any downstream partner which completes its plant ahead of schedule can begin production using supplies purchased elsewhere.

The petrochemical industry in Singapore boosted output by a record 20.3 per cent last year, according to figures from the country's Economic Development Board. This partly reflected a contribution from new plants unrelated to the Jurong Island development, such as an aromatics complex opened by Mobil last March. The EDB, the state industrial agency, says that new investment commitments should remain strong over the next few years but are "unlikely to be sustainable at this level in the long term".

The key factor will be the course of consumption in regional economies. Mr Yeo Cheow Tong, trade and industry minister, has forecast that the increase in demand for petrochemicals in the Asia-Pacific will grow at twice the rate for developed markets in the coming years.

The partners currently supply half their production to the countries in the Association of South-East Asian Nations, with nearly all the remainder going to other regional markets. Mr Okada says that before going ahead the partners factored in the arrival of extra capacity in Malaysia – where barriers protect the domestic market – as well as Indonesia and Thailand. South Korea has also been expanding output.

But China, which along with other potentially huge markets such as India is a net importer, already takes some 15 per cent of output from the Singapore complex by value, and demand from there can do little but grow.

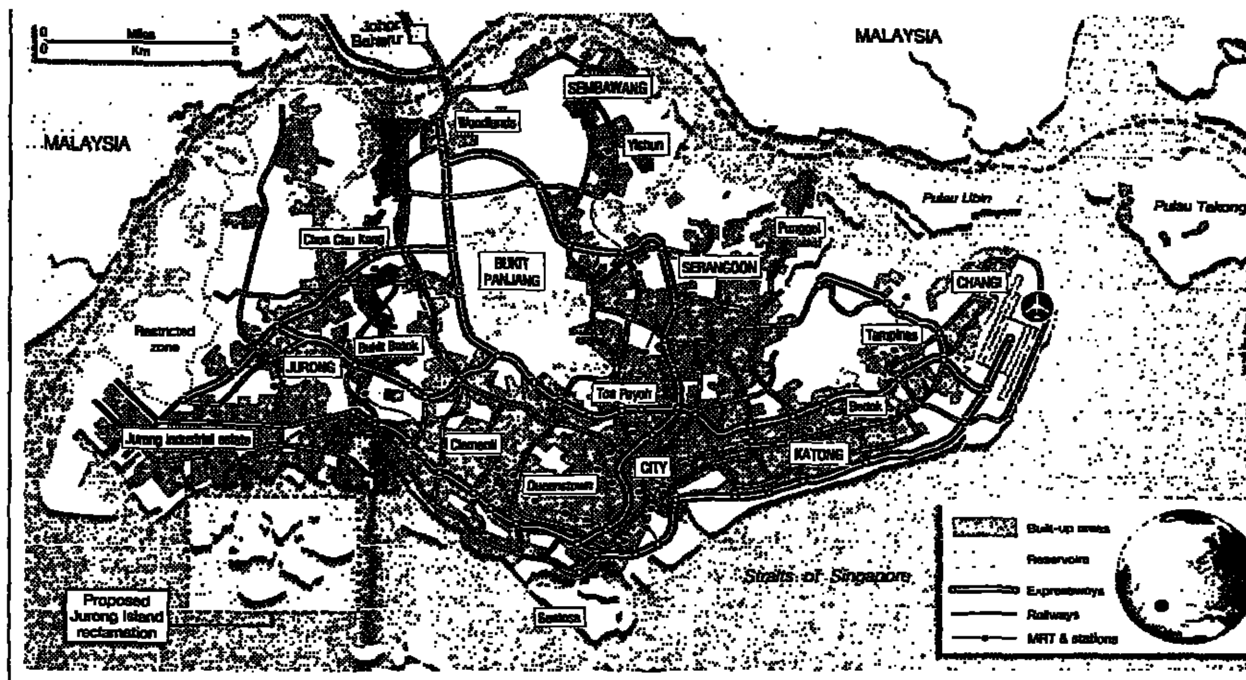
Plastics producers see particular promise in China, for everything from bags to injection moulding parts to bottles for drinking water and for daily consumer products such detergents, shampoos and cosmetics. As Mr Jerry Jarding, president of Phillips Petroleum Singapore Chemicals (PPSC), puts it: "Procter and Gamble, Johnson and Johnson, they are all moving there. We will follow."

As infrastructure in China and elsewhere develops, plastic pipes will be needed for water, sewage and gas, as well as large storage drums. PPSC, in which the Singapore government has a 30 per cent stake and Sumitomo Chemical 20 per cent, manufactures linear polyethylene from which all these can be made. It is doubling capacity on the island to 400,000 tpa, approaching half the total of 850,000 tpa which Phillips can produce in the US.

"We look at all of Asia as our market," says Mr Jarding. "If that's your playground, what advantage do we have? Logistics – we can be any place in Asia in less than a week. It takes the Koreans two weeks."

Apart from geographical location, Singapore's infrastructure and educated workforce are added plus points, while relatively high labour costs are less of a factor in such a capital-intensive industry. "Singapore is blessed with talented, committed people who give you that extra 10 to 20 per cent. Labour costs are increasing but, if you can offset them through productivity gains, then that's fine."

Another way in which some participants are adding value is by using the extra upstream availability to expand their product range. The Polyolefin Company (Singapore), a Sumitomo-controlled operator in which Shell holds 30 per cent, is for example adding linear low density polyethylene to its portfolio. "Companies can improve their competitiveness by aiming towards different segments," says Mr Okada.



Singapore in brief: key facts

■ Area, population

Population (millions)

1980	1990	1991	1992	1993
2.28	2.71	2.73*	2.82*	2.87*

*Estimates

Population density (per sq km, mid-1993) 4,480.5
Area (sq km)................... 641.4†
†247.6 sq miles

■ Languages

Official languages: English, Mandarin Chinese, Malay, Tamil.
English is the main administrative language and is almost universally understood. Malay is the national language. Other official languages are Mandarin and Tamil.

■ Ethnic groups

Chinese 2.23m (77.7%); Malays 0.41m (14.1%); Indians 0.2m (6%); Others (1%). Mid-1993 figures.

■ Visa requirements

Passports are required but *Commonwealth citizens and* national of some other countries – Ireland, Liechtenstein, Monaco, Netherlands, Switzerland, San Marino – do not require visas.

■ Currency

Exchange controls were removed in 1978. The Singapore dollar is fully convertible and floats freely against other currencies, with the Monetary Authority of Singapore monitoring its value against a trade-weighted basket of other currencies.

■ Exchange rate:

Currency: Singaporean dollar. *Recent exchange rate* (February 8 1995) £1 = S$2.2606, US$1 = S$1.4550; Average exchange rate, 1994: £1 = S$2.3374; US$1 = S$1.5269; Average exchange rate, 1993: £1 = S$2.4259; US$1 = S$1.6152.

■ Working hours

Business: (Mon-Fri): 09.00-13.00; 14.00-17.00; (Sat) 09.00-12.00.
Banking: (Mon-Fri): 10.00-15.00; (Sat) 09.30-11.30.
Government: (Mon-Fri) *08.00-13.00; 14.00-17.00;* (Sat) 08.00-13.00.
Shops: 10.00-19.00 (Mon-Sat). Many stay open later and *some, particularly in tourist* areas, open on Sundays.

■ Public holidays

Owing to its multi-ethnic composition, Singapore celebrates a wide range of world religious festivals and holidays. When a holiday falls on a Sunday, the following Monday is a public holiday. 1995: January 1 (New Year's Day), January 31-February 1 (Chinese New Year*), March 2 (Hari Raya Puasa*) April 14 (Good Friday*), May 1 (Labour Day), May 9 (Hari Raya Haji*), May 14 (Vesak Day*), August 9 (National Day), October 23 (Deepavali*), Christmas Day (December 25).

*These holidays are dependent on the Islamic lunar calendar and may vary by one or two days from the dates given.

■ Time (zone)

Eight hours ahead of GMT

■ Climate

Tropical, with abundant rainfall throughout the year and a November-January monsoon season. October to March are the wettest. Humidity is high, *and temperatures vary little* from season to season, ranging from an average maximum of 31°C by day to 25°C by *night*

May is the hottest month, with 24-32°C the average daily minimum and maximum; July is the driest month, with 70mm average rainfall; December's average 257mm rainfall makes it the wettest month, while January is the coldest month.

■ Main economic ministries

Prime Minister's Office: Istana Annexe, Istana, Singapore 0923 (tel) 2358577; fax 7324627
Defence: Tanglin Road, Singapore 1024; tel 4741155; telex 21373.
Education: Kay Siang Rd, Singapore 1024; tel 4739111; telex 34366.
Environment: 40 Scotts Rd, Environment Bldg, Singapore 0902; tel 7327733; fax 7319456.
Finance: 8 Shenton Way, Treasury Bldg, Singapore 0106; tel 2259911; telex 34371; fax 3209435.
Health: 16 College Road, College of Medicine Bldg, Singapore 0316; tel 2237777; telex 34360; fax 2241677.
Home Affairs: Phoenix Park, Tanglin Road, Singapore 1024; tel 2359111; telex 34360.
Information and the Arts: 460 Alexandra Road, PSA Bldg, Singapore 0511; tel 2707988; fax 2799765.
National Development: 5 Maxwell Rd 21/22-00, Tower Block, MND Complex, Singapore 0106; tel 2221211; telex 34369; fax 3226254.
Trade and Industry: 8 Shenton Way, Treasury Bldg 48-01, Singapore 0106; tel 2259911; telex 24702; fax 3209260.

■ BUSINESS GUIDE

It's unlike Hong Kong

You want to establish a base in the east Asia region. You are frightened by the costs in Hong Kong. You consider Singapore. Here are a few facts, vital and otherwise, that you might discover:

Location: Hong Kong is for China watchers, Singapore is for those keen on south-east Asia. *So if the main part of* your business is likely to be conducted in Thailand, Malaysia, Indonesia or the Philippines, then Singapore, rather than Hong Kong, is the place to be. Developments in the countries of Indochina are also probably followed more easily from Singapore.

Getting there: Flights in and out of both Hong Kong and Singapore are frequent but Singapore's Changi, consistently voted the world's top airport, knocks spots off Hong Kong's Kai Tak for comfort and convenience. At holiday times Singapore also offers a growing number of direct flights to many of the region's tourist destinations, such as Manado in Indonesia, Phuket in Thailand and Langkawi in Malaysia. It is only a short distance from Singapore to Malaysia but the causeway linking the two is often jammed, particularly at weekends.

Hotels: Singapore hotel rates have increased substantially. A bed in a standard room at one of Singapore's top hotels, such as the Shangri-la, will cost S$350 – "plus, plus, plus" (10 per cent service, 3 per cent goods and services tax and 1 per cent government tax). Substantial savings on hotel costs can be made by arranging a corporate discount. Medium level hotels in Singapore offer more space and better facilities than their counterparts in Hong Kong. Despite increased charges, Singapore hotels are often full, so book well ahead.

Costs: The big plus for Singapore is that housing and office rents are about a third of those in Hong Kong. But don't be fooled – a 40 per cent surge in Singapore's property market over the past year has pushed prices to levels which will leave holes in many corporate accounts. A two to three bedroomed apartment for an expatriate in Singapore is likely to cost at least S$6,000 a month. A house can cost between S$10,000 and S$20,000 a month. Office rents in Singapore's central business district are about S$8 a sq ft, compared to about S$5 a little over a year ago.

The cost of food is generally lower in Singapore than in Hong Kong though many western items are more expensive. Drink is pricey in Singapore: an ordinary bottle of whisky costs S$53, a mediocre bottle of wine S$17, a large bottle of beer S$5. Singapore, or rather its government, does not approve of smoking. It is banned in many areas. A pack of 20 cigarettes costs about S$4.60.

Schooling in Singapore is not cheap: the International School charges S$12,000 per year for its middle school pupils, plus a one-off initial payment of S$2,000 and a refundable deposit of S$6,000.

Cars: Singapore prides itself on the efficiency of its public transport. The underground mass transit system is air-conditioned and spotlessly clean though it covers only a limited area. The bus system has been considerably improved. Finding taxis can be a problem, particularly at peak hours, weekends or when it rains. So you still need a car.

Be ready for a shock: *Singapore now has the world's* most expensive vehicles. Import duties and a quota system designed to limit the number of cars on the island republic's roads have pushed the price of the cheapest car to nearly S$100,000. A Jaguar XJ3.2 costs about S$320,000 (£139,000) to put on the road in Singapore. The equivalent model in Britain costs about £28,000. An alternative to such capital outlays is leasing: a modest set of wheels costs about S$1,500 a month.

Leisure: Singaporeans have *two main hobbies: shopping* and eating. The many hundreds of shopping complexes are usually full of people – as are the city state's restaurants. Every variety of Chinese, Indian and Malay food is available. There is also a growing number of western restaurants. The recently developed area adjacent to the Singapore river offers good food in a pleasant outdoor *setting – at a price.*

The development of the arts is being encouraged, but the scope of events is limited. The government bans or limits the sale of some journals – such as the Far Eastern Economic Review and Cosmopolitan magazine – but a wide range of publications is available. Censorship of imported films is more relaxed these days. Tough restrictions are placed on the use of satellite dishes though more foreign broadcasts are becoming available through cable.

General: Many expatriates find Singapore a good place to bring up children. But the brouhaha last year over the case of US teenager Michael Fay – *fined, flogged and jailed* for vandalism offences – might cause a few parents with unruly offspring some anxiety about living in Singapore. The government message is clear: obey the rules – there are plenty of them – and everything will be fine.

Verdict: Hong Kong might be dirty. It has more crime, its living conditions are more cramped: but it has a vibrancy lacking in Singapore. The island republic has sun and tropical temperatures all year round. Hong Kong has hot, sticky summers and cold, damp winters with some clear weather in between. The choice is between Singapore's *steady predictability and the* less organised, changeable, more unruly world of Hong Kong.

Kieran Cooke

The country wants to improve its relationships in the region, writes **Manuela Saragosa**

Asean neighbours try to patch up rows

Singapore has not been hesitant in criticising the US and other western nations, but in its own region it cannot afford the luxury of such openness.

The Association of South-east Asian Nations (Asean) is the pillar on which the republic builds its regional relations, and in an organisation which prides itself in solving problems through consensus, an openly critical stance would not wash well with Asean member states.

"Asean is the core of the regional community and is needed to build those bridges with Laos, Cambodia, Vietnam and Myanmar (Burma)," says a senior Singaporean official.

Within Asean, Singapore has shown a willingness to play a leading role in several areas, including the proposed entry of the countries of Indochina into the organisation. Under a policy of what it describes as "constructive engagement", it is also leading a push for closer ties with Burma.

Throughout last year, senior officials and ministers from Burma made regular visits to Singapore. In addition, several Singaporean countries are stepping up investment in the country including Keppel Group, a partially government-owned diversified company, which now owns two hotels in Burma and has set up an investment fund in the country.

More recently, Singapore and Malaysia have been keen to show they are patching up differences which have arisen over the years. "I believe that relations between Singapore and Malaysia have moved on to a new level," said Mr Lee Hsien Loong, Singapore's deputy prime minister, during a recent visit to Malaysia. "We are progressively putting behind us the historical baggage which complicated our relations."

Among other things, a defence co-operation treaty has been signed between the two countries, there are plans for a second bridge linking the Malaysian state of Johor to Singapore and there is an agreement jointly to develop the Malayan Railway Land in Singapore.

Singapore has good reason to seek an improvement in relations with its closest neighbour. Since 1980, annual trade between the two has nearly quadrupled to S$50bn from S$13bn. In 1993, Singapore was Malaysia's second largest investor. In addition, Singapore is dependent on Malaysia for the bulk of its water and food supplies.

Asean likes to portray a sense of brotherhood among its members but beneath the veneer of amity lie some tense relationships. Singapore's dealings with Malaysia, for example, have often been strained, with issues of ethnicity and economic competition demanding delicate diplomatic balancing acts.

A number of trade and territorial disputes between the two countries have yet to be settled. There are problems over the ownership of an island. A decade of deliberations between the two parties did not lead anywhere, and the matter has now been referred to the International Court of Justice in the Hague.

More recently, a row has erupted over licensing arrangements for polypropylene and polyethylene imports which Malaysia introduced last April. Singapore says Malaysia's Approved Permit System for the imports has led to a 40 to 45 per cent fall in its petrochemicals exports to Malaysia.

"We have no idea whether they are doing this just to discriminate against us," says a senior Singaporean official. The World Trade Organisation has been called on to solve the issue.

In the international arena, differences between Malaysia and Singapore have been particularly pronounced on the Apec issue. Leaders of Asia Pacific countries, including the US, Canada and Japan, gathered in Jakarta in November last year, pledging to achieve free trade in the region over the next 25 years.

Singapore found an unlikely ally in Indonesia's President Suharto in its efforts to push for an early free trade deadline. This common stance on Apec has made relations between the two countries comfortable. For years Indonesia and Singapore were on opposite ends of the free trade scale within Asean. While Singapore has always ranked as the most open Asean economy, Indonesia is still regarded as the most closed and protectionist.

This left Malaysia, which would prefer to see greater regional economic dialogue and co-operation conducted through the East Asia Economic Caucus (EAEC), on the sidelines. Singapore and Malaysia "have agreed to disagree on the matter," says Singapore's Mr Lee Hsien Loong.

Despite Singapore's regular jabs at the US for what it sees as the country's lack of law and order, the republic actively encourages a US presence in south-east Asia. Malaysia, on the other hand, would prefer to see less of the US, an issue which lay at the root of its objections to Apec.

Singapore, however, is conscious of its vulnerable security position and is keen to balance China's potential economic and political dominance in the region with a strong US presence. "It's all about power politics," explains a senior official. "We don't want to see one dominant power in the region."

In contrast, Malaysian premier Dr Mahathir is far more enthusiastic about China's growing economic power. "South-east Asia should have no fear of a wealthy and strong China," he said during a visit to Beijing in 1993.

The size of Singapore's defence budget would indicate that it is worried about someone in the region. On average, it spends about 6 per cent of its GDP on defence. "You're always more suspicious of neighbours," says a senior Singaporean official.

Tensions between Singapore and Malaysia have their origins in Singapore's expulsion from the Malaysian federation in 1965. "We have not reached a stage of comfort yet that, for example, the French and Germans have achieved with each other," says the official.

The Asean forum has not proved very successful in solving such sensitive issues. Nevertheless, Singapore is fervent in its commitment to the organisation which officials say creates an "atmosphere of warmth" among its members.

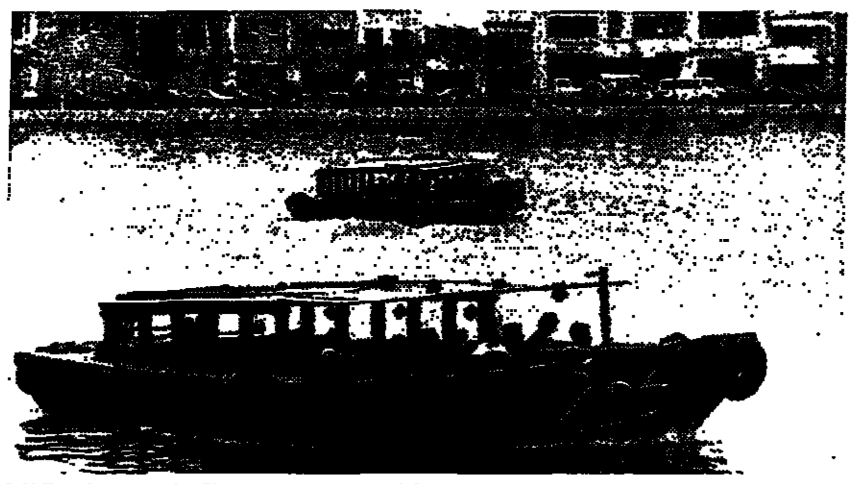
In contrast to Singapore's delicate undertakings with Malaysia, relations with Indonesia have been less problematic, although Singapore keeps a close eye on political developments in its sprawling neighbour.

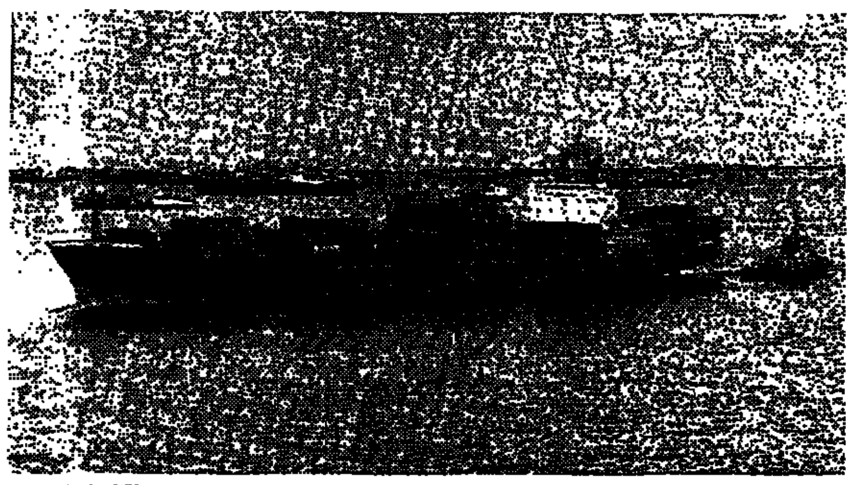
The successor of President Suharto, who has indicated he may step down at the next elections in 1998, is of particular concern to Singapore which invests heavily in Indonesia. An outbreak of violent anti-Chinese sentiment in Indonesia, of the kind seen during the labour riots early last year, would be a worry to Singapore which has a predominantly ethnic Chinese population.

One of the biggest projects Singapore and Indonesia have embarked on is the development of the Indonesian island of Batam, which lies 20km south of Singapore. The two parties have invested in an industrial park on the island which caters to many Singaporean and foreign manufacturing companies.

Despite this closeness, relations have to be sensitively managed. When forest fires in Indonesia caused a thick haze to settle over Singapore, disrupting air traffic and causing unprecedented levels of pollution, the island was loth to criticise the Indonesian government publicly.

Indonesia is still seen as the "big brother" in Asean and open criticism among countries who pride themselves in solving problems through consensus is taboo. "We have to tread a fairly fine line," says a Singaporean senior official.





(left) Tour boats on the Singapore River; (centre) Shipping at anchor off Singapore; (right) A cruise liner at the Port of Singapore Authority's Keppel Container Terminal

Photographs: Glyn Genin

Marine industries hope for an upturn but competition is growing

Shipyards aim to keep busy

Singapore's marine industrialists like to boast that theirs is the island state's only truly home-grown indigenous industry. They point out that the development of Singapore's shipyards mirrors that of Singapore itself, starting when Sir Stamford Raffles established the island as a British trading post in 1819.

The picturesque Chinese junks, Indochinese "wangkangs", European square boats and Indian "leteh-letehs" have since been replaced by VLCCs (Very Large Crude Carriers) and smaller tankers which are packed into Singapore's docks, making the island state one of the busiest ports in the world.

However, Singapore's shipyards have not always been so busy. The state's marine industries, which include shiprepair, shipbuilding and rig building, were earmarked "sunset industries" by the government in the recessionary climate of 1986-87.

The industry was kept afloat to a large extent by the fact that many of the oil tankers which had been at sea since the oil boom of the mid-1970s were due by law to undergo mandatory repair work. Shiprepair, rig and shipbuilding accounted for some 3.2 per cent of 1993's GDP, employing about 22,000 workers.

Spurred along by a reputation for a quick turnaround time, shiprepair accounts for most of the marine industry's output. Singapore has the largest repair capacity in the world with a dry and floating dock capacity of over 3m deadweight tons.

With another batch of the world's oil tankers due for repair over the next few years, Singapore's shipping companies have been pre- paring for an upturn. Some of the biggest shipyards, including the partly government-owned Keppel Shipyard and Jurong Ship Yard, Singapore Shipbuilding & Engineering and Pan United, have invested in additional dry and floating docks to meet the expected demand.

Mr Sim Kee Boon, chairman of the Keppel Group, a diversified company with the marine industry as its core business, is confident that as Asia's demand for oil rises, so will the need for repairs and new tankers. "We are preparing for the next wave," says Mr Sim Kee Boon. "The main challenge is to remain competitive."

Industry analysts say the companies are "highly competitive" but that some serious challenges lie ahead. Rising labour costs, a shortage of labour supply, the development of shipyards in neighbouring countries and a steadily appreciating Singapore dollar which is eroding the competitiveness of exports, are forcing the industry to improve its productivity.

In anticipation of an upturn in shiprepair, the government decided last year to increase the labour supply to the industry from a ratio of one local to two foreign workers to one local to three foreign workers.

Because of a shortage of domestic labour, a large proportion of the workers employed in Singapore's marine industry is foreign, mostly Indians, Malaysians, Indonesians and some from China.

However, there seems to be something illogical about the government's omnipresent hand in the marine industry. While increasing productivity in the industry is its stated objective, the authorities charge shipyards S$200 a month for every foreign skilled worker they employ and S$385 for every unskilled foreign worker. But in a country where the shortage of domestic labour is chronic, many foreign workers are not eligible for all of the government-funded training schemes.

Singapore's government is actively encouraging shipyards to train their workers this way, but the costs involved in training personnel fall squarely on the shoulders of the employers. "The difference between the levy on skilled and unskilled workers is getting bigger and bigger," says a shipyard director.

Industry sources say the government has the right intentions but that it is hard when foreign staff, in which employers have invested time and money to provide training, leave at the end of their contracts, unlikely to return again.

Most shipyards have undergone a severe process of restructuring over the past four years because of depressed freight rates, which have forced shipowners to defer tankers' repair schedules and made them reluctant to order new ships.

As a result, profit margins have been shrinking. Many say they are no longer in a position to quote prices for repairs and shipbuilding – it has become a buyers' market.

While the number of vessels coming to Singapore for repairs has increased, many shipyards report lower profit margins per vessel. Just over 2,000 vessels docked in Singapore for repairs in the first nine months of 1994, an increase of 2.6 per cent over the same period a year earlier.

This year, the government predicts output of the marine industry will reach S$3.33bn, up 15 per cent on last year's output of S$2.9bn. That output will come mainly from shipbuilding and conversion but shipyards are unlikely to start celebrating until the repair market shows signs of strong growth.

Repairs, however, will not pick up until tanker freight rates remain at about US$22,000 a day for a few months. This would be a high enough level to justify life extensions for old tankers.

Industry analysts are optimistic. They predict freight rates will top US$20,000 in the second half of this year and that Singapore's shipyards, leaner and more efficient after turbulent times, will be well-placed to take advantage of the upturn.

The shipyards also capitalise on Singapore's strategic location. But as neighbouring countries, such as Malaysia and Indonesia, step up their efforts to develop a marine industry, so it is becoming imperative that Singapore's shipyards start thinking in regional terms.

The largest shipyards have not ignored this. Later this year, Sembawang, another one of Singapore's partly government-owned diversified marine industry companies, is scheduled to start construction work on a repair yard in Karimun island in Indonesia.

Meanwhile, Keppel continues to invest aggressively in repair yards in the Philippines and Vietnam. It has also entered an Australian joint venture, Keppel Caincross Shipyard, in Brisbane where it offers a 24-hour integrated repair and refurbishment services and dry docking facilities.

The most immediate threat, however, comes from the Middle East. "The area has taken quite a large share of the market," comments Mr Tan Meng Kian, business manager at Atlantis Shipyards.

To counter that threat, Keppel has set up two yards in the United Arab Emirates, Arab Heavy Industries and Al Majid Engineering, which carry out repairs and conversions. The yards are managed by Singmarine Industries.

Despite tough market conditions and increasing competition in the region, industry analysts point out that Singapore has support industries for the marine sector which are unmatched in other parts of the world.

Coupled with sophisticated infrastructure and communication systems this is likely to keep the republic ahead of the competition. "As long as there's sea trade going on, we will have business," says Mr Ong Chew Liang, executive secretary at the Association of Singapore Marine Industries.

Manuela Saragosa

هكذا من الاصل

Gordon Cramb on plans for blanket information technology coverage

The all-wired island

A district called Tampines in the north-east of Singapore, with its slabs of pink and cream public housing, looks the same as most residential parts of the island. A mere half-hour ride on the *Mass Rapid Transit rail system*, it is about as far as one can physically get from the commercial hub of the country in the south.

But Tampines is a testing ground in bringing the benefits *of information technology into* the daily lives of Singaporeans. Its newly-opened public library bristles with personal computers linked to CD-Rom drives, and a clutch of young people wearing headphones sit *at booths manipulating the* on-screen displays. And by midyear, families in the local housing blocks will be the first in Singapore to receive cable television, its 30 channels intended as a precursor to a *wider multimedia service into* the home.

Both initiatives are connected to the government's IT2000 project aimed at creating a wired island within the next five years. The aim is to enhance not only quality of life but competitiveness. It involves building a network to link homes, offices, schools and factories across Singapore and to provide access to and from sites elsewhere in the world.

Since the scheme was announced nearly 3¼ years ago by Mr Goh Chok Tong, the prime minister, countries ranging from the US to Vietnam have unveiled national IT plans. Singapore remains likely to be the first to establish *a truly nationwide coverage*, though, if only because of its small size. A blanket residential hook-up would, for example, involve only 750,000 homes.

Indeed, size is one of the fac*tors underlying the drive*. "We see technology as allowing us to enlarge our economic space, overcoming our country's small size," says Mr Ko Kheng Hwa, chief executive of the National Computer Board, the *state agency co-ordinating* the project. "Using technology will enable us to compete better in the first division of nations – we have resource and manpower constraints, and our costs are rising."

IT2000 seeks to address the costs problem by offering enhanced electronic means for "remote management" where, as has already been happening for a number of years, companies locate only their higher value *added functions in Singa*pore. Executives based there would be able more precisely to monitor manufacturing centres sited elsewhere in the region where land and labour outlays are lower. Complex tasks such as product planning, involving design, *production and marketing staff, could* be conducted down the line.

This may sound like fairly standard futurespeak. But in the last few years Singapore has developed a number of sectoral networks within the *island which testify to its abil*ity to deliver technological benefits for business. Under the widest of them, a system known as TradeNet, automated import-export approvals now link some 12,000 companies *with 20 government ministries* and agencies, and take 15 minutes compared with up to two days previously.

With as much as 95 per cent of shipments processed electronically, the government's *estimate of the saving to all* users totals S$1bn a year. TradeNet is being expanded in order to speed cargo handing itself, not just the paperwork.

Other networks, such as CoreNet, for the construction *and real estate sector, are* intended to offer everything from land registry particulars to computerised screening of architectural plans to cut down the usual laborious process of ensuring compliance with building regulations.

Meanwhile, Singapore Telecom, the partially privatised phone utility, intends to have optical fibre laid to all high-rise commercial and residential blocks by 1997. The company will gain a return on the investment by being *allowed to offer additional ser*vices over the network beyond basic voice and data telephony. The ultimate scope of these is not yet clear, though, and it is likely to find itself in competition in some areas from Singapore CableVision (SCV), which will take coaxial feeders from the Telecom installations to complete the link into each home.

The consortium which will *run the cable ser*vice includes local media groups and Continental Cablevision, the third largest US cable operator. SCV currently supplies three UHF channels over the air to sub*scribers who are supplied with* a decoder. Its service marked the first break in the monopoly held by the state-owned Singapore Broadcasting Corporation – satellite dishes are banned for all except a few approved institutions such as banks and embassies.

As dishes get smaller, however, this form of cultural control will eventually become too hard to police, and recent dablings by Singapore Broadcasting in satellite markets abroad are seen by local analysts as *preparations to meet that per*ceived threat.

Ahead of this, another battle is being fought, which also pits the forces of the free market in information against those of social paternalism. Last year the *government* licensed an initial two service providers to supply connections for Singaporeans to the Internet, the worldwide computer network with 30m users.

Whether the Internet, unre*gulated by any external power*, can be controlled is debatable. It is non-commercial and contains merely the data which users anywhere see fit to put on it, including scanned pornographic images. While that is *frowned upon by most users*, the culture of the Net is libertarian and debate about political as well as sexual mores knows few bounds. All of this might be thought to be anathema to a Singaporean administration which values social discipline above free speech.

But the Net is also a business tool, and fewer foreign companies would these days *locate on the island if they* were to be deprived of electronic mail and information retrieval facilities. Prof Eddie Kuo, dean of the school of communications studies at Nanyang Technological University, *says the government remains* anxious to protect the population from "decadent" western influences. But there is a tension between that and an open economy for which, by definition, "information is good, and *the government will go all the* way to make business people competitive and attract multinationals to Singapore".

Officials say the obviously *unacceptable sites* on the *superhighway* have been blocked by the two licensed operators, which act as gatekeepers. But the nature of the Net is that other sites spring up by the minute. While it is *likely that some of the public* sector's best software engineers have been put to work seeking ways to close further loopholes, Prof Kuo maintains: "Whether or not it should be censored is irrelevant. The fact *is, it can't. The question now is* how to minimise the damage."

He believes the government is engaged in a process of managed liberalisation to accommodate these technological changes: "Singapore is a global *city and there's no going* back."

As Mr Bill Gates, Microsoft *chairman, put it in an inter*view with the local Straits Times daily: "They are going to try to have their cake and eat it too because joining cyberspace is essential to the role they play as a major hub in global commerce. They want to be connected globally, but maintain local values." Leaders would have to "work out this coexistence of two colliding worlds".

Similarly Mr William Gibson, the American author who coined the term cyberspace, wrote after a recent visit to Singapore that "they expect that whole highways of data will flow into and through their city. Yet they also seem to expect that this won't affect them." But what worried him most was that a state with "the look and feel of a very large corporation" might continue to flourish by repressing free expression. "They will have *proven that information does* not necessarily want to be free."

That large corporation is willing to make information available gratis for those at the keyboards in Tampines *Regional Library*, as its return will come from a better educated nation "consolidating our competitive position in the knowledge economy of the 21st century," an outline of the project avers. Forms of infor*mation deemed dysfunctional* are likely, by contrast, to carry the highest possible price.

Audio equipment galore in Orchard Road, Singapore — Glyn Genin

Manuela Saragosa on an industry seen as the lifeline to the island's properity

Electronics climbs up value-added ladder

Singapore's economic success story is rooted in *the rapid development* of its electronics industry – from the first television assembly plant set up just before the city state became a republic in 1965 to its position today as the world's largest exporter of disk drives.

It comes as no surprise therefore that the sector is seen as Singapore's lifeline to continued prosperity. Growth in the electronics industry has averaged 24 per cent annually for the past three years, with output expected to be S$49.3bn last year. It is Singapore's largest manufacturing industry, accounting for about half of total output in 1993 and one-third of total employment.

Although the outlook remains positive, rising labour costs, a shortage of labour, a "price war" within the computer industry, an appreciating Singapore dollar and regional *competition mean it* is also an industry undergoing transition.

Singapore's higher comparative costs have already prompted several multinational companies, which dominate the electronics industry, to shift their operations to neighbouring countries. In *December last year, AT&T* laid off 600 of its workers, halving the staff at one of its Singapore telephone handset plants and relocating production to the industrial park on the Indonesian island of Batam.

Mitsubishi followed soon after, shutting down a TV and car audio production plant in Singapore and moving it to Malaysia.

The relocations are symptoms of a shift to more higher value-added production in Singapore's electronics industry. "If you want to go up the value-added ladder, *you must* be prepared to give up the lower value-added operations," explains Mr Alex Chan, managing director at Hewlett-Packard in Singapore. "It is a natural progression."

*Mr Chan echoes the govern*ment's view. Worried that the relocations might result in a hollowing out of the republic's electronics industry, the authorities are now channelling their efforts into transforming Singapore into a hub for high-tech electronics and a centre for research and devel*opment in Asia*.

A number of R&D institutes have been set up by the government in co-operation with academics, and foreign and local electronics companies. Hewlett-Packard has an R&D centre in Singapore for all its mobile printers, personal information products and networking software. Apple Computer in Singapore is developing the software for an Asian language recognition system for personal computers.

Investment flows into electronics-related sectors are being spurred along by a strong Japanese yen, which is prompting many Japanese manufacturers to move their higher value-added activities to Singapore. In addition, Singapore's Economic Development *Board has set up a* US$675m Cluster Development Fund designed to attract high-tech companies to partner local producers in R&D activities.

Industry sources note, however, that there is a distinct shortage of electronics engineers on the domestic market. *Many of the engineers work*ing in the republic are recruited from China, India and the US.

For this reason, some engineers are sceptical about Singapore's prospects as an R&D centre. "This kind of work requires creative thinking but Singapore's education system does not encourage that," says a senior software engineer at a US computer company in Singapore.

The government is keen to reduce the leading position that disk drives occupy in the electronics industry. The manufacture of disk drives is highly cyclical, yet this subsector of the industry accounts for about 22 per cent of its total value.

One of the main areas the government hopes to see expansion in is the semi-conductor industry and it is actively encouraging multinationals to invest in wafer technology.

Growth in the industry has been extremely rapid, with output in semiconductors climbing by 61 per cent in 1993, and a further 60 per cent growth estimated for last year. The bulk of the output is dominated by Tech Semiconductor, Chartered Semiconductor Manufacturing and SGS Thomson Microelectronics.

With *all these* grand schemes taking place, local electronics companies are at a distinct disadvantage. There are government-funded R&D institutes which are aimed at assisting several local companies to develop technologies to produce highly complex miniature disk drive parts, but the health of local companies is very product-specific.

Creative Technologies, often touted by the government as a prime example of a successful story of Singaporean talent, has secured itself a 65 per cent *share of the global market for* soundboards, but is almost completely dependent on this one product.

Those likely to suffer most *as the electronics industry* shifts to more capital-intensive products are the sub-contractors for multinationals. Over the past 10 to 20 years most of these companies have not needed to focus on marketing by virtue of their activity as assemblers for well-known brand names.

Now, *they are vulnerable to* the structural changes taking place in the republic's electronics industry. "The industry has evolved to such a stage that having the right technology alone does not guarantee success. You need the marketing and a lot of the smaller companies do not have the experience," Mr David Toh, investment analyst at Baring *Securities, points out.*

This is occurring in an increasingly competitive global electronics market. Industry analysts point out that technology is constantly changing and being updated while product cycles are getting shorter. "Electronic manufacturers have constantly to upgrade their technology and products to lower costs and stay competitive," says Mr Toh.

A "price war" in the computers sector is also making life a little harder. Big computer makers *in the US* are undercutting each other on computer prices and this has hit profit margins at local companies.

Over the past year, Creative Technologies has been actively addressing its profit margin erosion. In the second quarter of the 1995 financial year, the company's net earnings dipped 39.6 per cent to US$21.6m but its efforts to change its product mix have contributed to an *improvement in profit mar*gins. Analysts point out, however, that to maintain acceptable margins the company will need new products.

Despite these concerns, industry analysts argue that Singapore's 20-year lead in the industry is set to continue. A concerted effort to move towards higher technology and higher value-added products, the presence of a large number of electronics multinational corporations and their established network of local equipment manufacturers and sup*pliers all* work in Singapore's favour.

■ THE ARTS

The censor is 'indispensable'

Ask Mr Alvin Tan, one of Singapore's most prolific theatrical directors, how he relates to the official bodies governing the arts, and *his answer, delivered in earnest*, is: "Very carefully".

Mr Tan is artistic director of The Necessary Stage, an eight-year-old company which mounts challenging adult drama at city centre venues while also running programmes for schools and local communities. *More than half its funding comes* from the government's National Arts Council, which also subsidises its studio and office space, so the question is about nothing less than survival.

His company is now trusted enough to be one of a dozen which do not have to *submit scripts to the authorities in* advance of opening a production. All public entertainments in Singapore need a licence from the police, which will be withheld if words or actions in them are deemed to constitute a threat to public order, security or decency.

Mr Tan accepts he has to work within the constraints. "You think about how it can be done in another way," he says. Not just the government is to be borne in mind: Singapore's majority public opinion is by most measures conservative, and audiences are small enough, anyway. "*You can't alienate them – you have to* play to your own crowd."

Mr Foo Meng Liang, NAC executive director, invokes a litany of Singaporean anxieties in defending the restrictions. It is a young society, made up of different cultures, races and religions, and is "too *fragile, too vulnerable to afford this kind* of experimentation. Artists shouldn't go out purposely to provoke." And in a small, densely populated country, "your freedom ends where my nose begins".

The council, established in 1991, acts as policy adviser to the government and impresario for its own events as well as a repository of funds for approved others. Criteria for those outlays centre on artistic record, *management capability and bud*getary prudence. Arts groups are urged to seek secondary funding, but corporate sponsorship in Singapore remains largely confined to multinationals – Shell is a long-time benefactor while Guinness provided S$445,000 to establish the Substation, a leading city venue for visual and performing arts.

Alongside censorship, the most hotly *discussed issue among Singaporean arts* practitioners is to what extent local potential is being neglected at the expense of big imported names. Mr Foo insists: "Our instinct is to nurture home-grown talent," but adds that in a small population the pool from which that talent comes is bound to be of lesser dimensions. In any event, "we want to expose our own people *to world-class performances. It's* also a good opportunity for local artists to rub shoulders with foreign performers."

To take three current instances:

- The Singapore Symphony Orchestra this month marked its 15th anniversary with a gala concert featuring four young *Singaporean musicians. Three quarters of* its 90-strong membership are locals, but guest performers from abroad usually dominate the solo spots.
- After an outcry from Singaporean painters and sculptors, the NAC is this year detaching the annual Singapore Art Fair, established in 1985, from the Tresors international visual art and antiques market with which it was merged last year. Local artists felt swamped by the commercial nature of the larger event, which has a turnover higher than the NAC's entire S$33m annual budget.
- Sir Andrew Lloyd Webber's Phantom of the Opera opens at the end of the month with NAC support, although the council expects to make a return on its investment.

In a small, densely populated country, "your freedom ends where my nose begins"

The issue of imports, making Singapore an arts "hub" as it is in commerce, is in some commentators' eyes part of the same *mindset* which censors as well as underinvests in local artistic output. Mr Ray Langenbach, a US lecturer in arts at the island's Nanyang Technological University, argued along these lines in an article late last year for Art and Asia Pacific, a quarterly journal published from Sydney but printed *in Singapore*.

Part of the piece was devoted to a complaint that the Singapore Art Museum, which has no permanent collection, gave shoddy treatment to its occasional highlighting of south-east Asian works. At times, paintings "were packed into the exhibition like sub-tenants in an HDB (public housing) flat".

But he maintained at the same time that "some of the most riveting performances and discussions about art are now happening outside the walls of art schools, gal*leries* and the museum. Art practice has moved into the offices of the government, bureaucracy, police stations, lawyers' offices and courts. With this expropriation, there arises the spectre of Singapore as an emerging foreign art commodities exchange sans local production. The bureaucrats apparently believe that they can fashion a 'global capital of the arts' by sponsoring a minimum of 'safe art' at home, while massively showcasing and marketing the artistic creativity of other nations."

Aspiring local artists and musicians in Singapore are likely to run up against their harshest panel of critics-cum-sponsors *long before* they debut in any venue: their parents. In a scene from Best Foot Forward, a production this month by the local Action Theatre company, a would-be violinist is berated by his mother for not seeking a more lucrative job. Young artists anywhere might identify with this vignette but, as is explored in the play, the island's pursuit of "excellence" as an oft-chanted official mantra is increasingly interpreted by its citizens as financial betterment above all else.

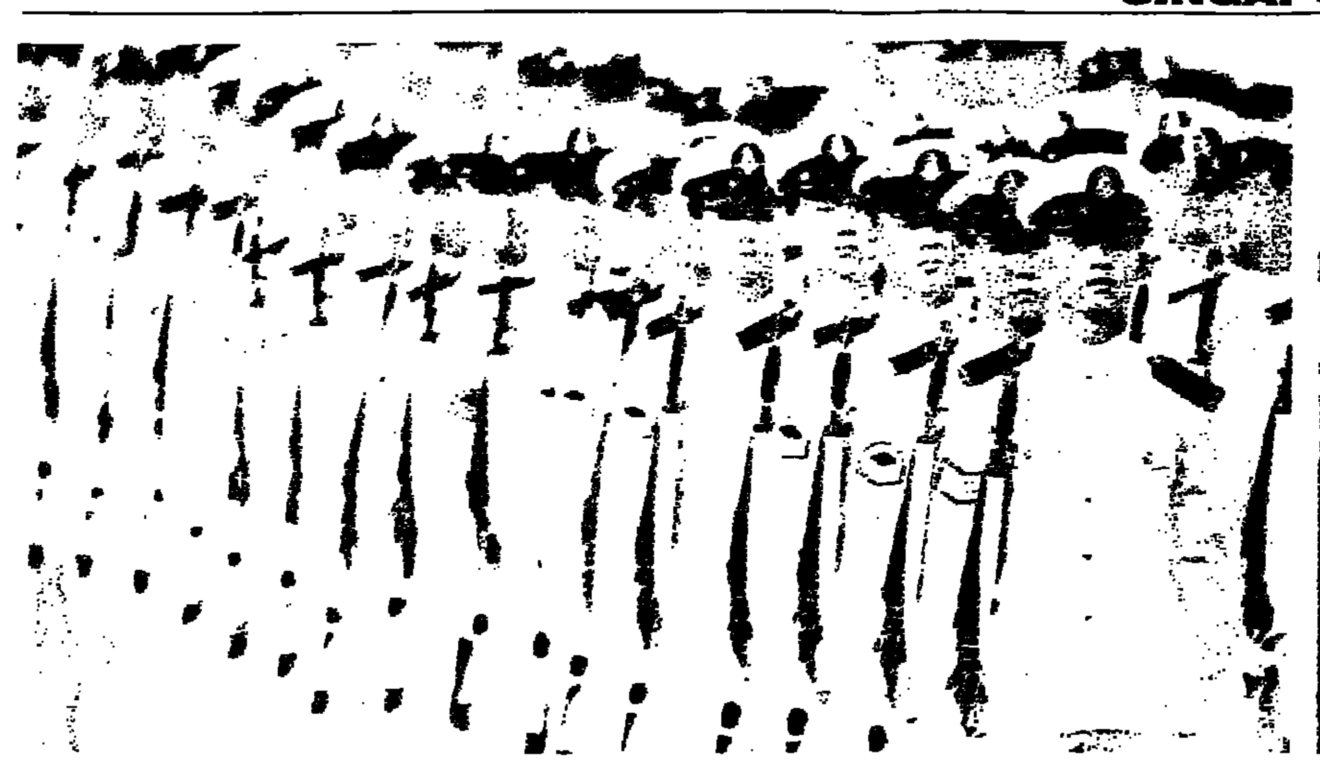
At the Substation the same week, a forum on dance was told that virtually no ballet students get any family support beyond high school. As one participant put it: "Senior minister Lee Kuan Yew was encouraging entrepreneurs to go to China. We need risk in other areas too. That's where creativity comes from – when you are dealing with uncertainty."

Risk, uncertainty: the stock-in-trade of any artist. But in Singapore these factors seem so high that, in theatre anyway, amateur dramatics prevails. The writers of the Action production are by day an investment banker and an accountant. Even in a longer established company like The Necessary Stage, actors are paid only "a token amount – people come in from work to do it," says Mr Tan.

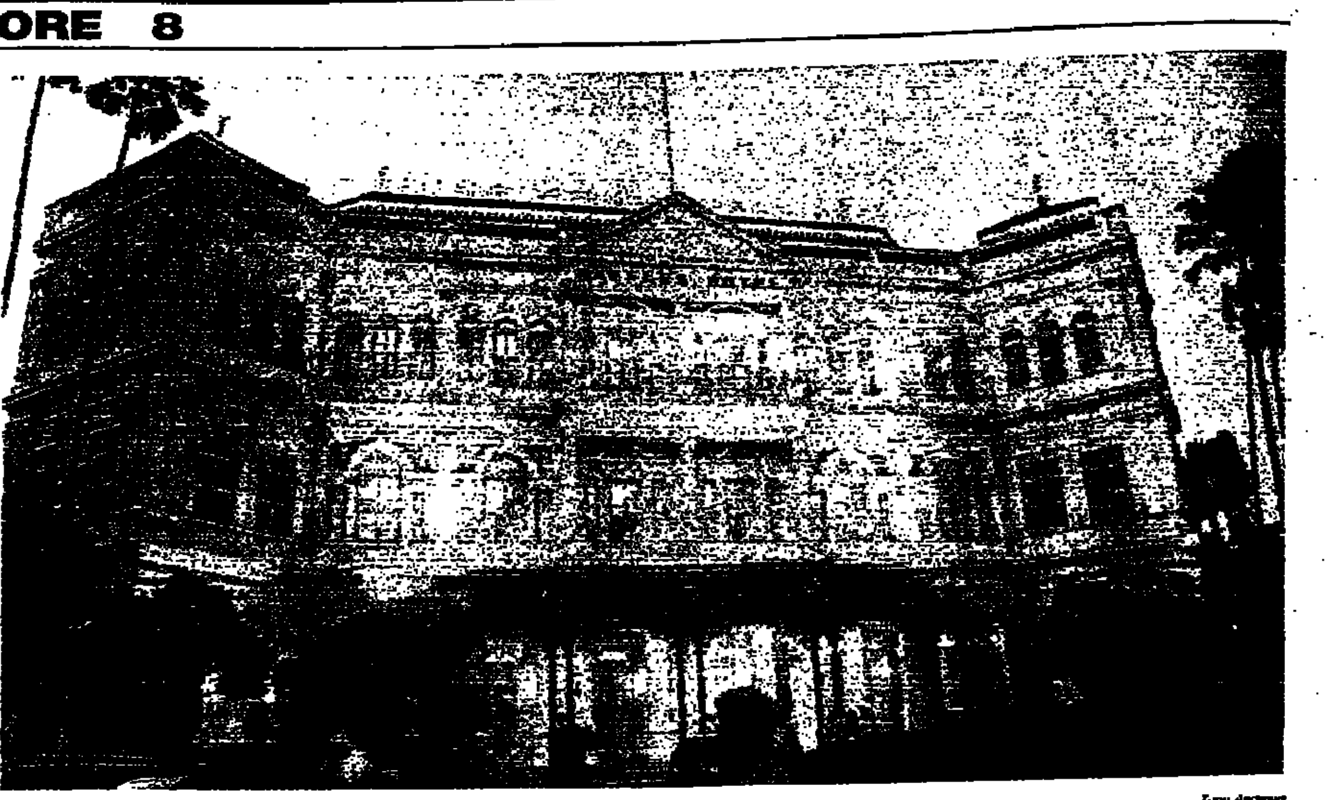
Newer media such as film receive no state funding to speak of, although the Economic Development Board is seeking to promote the island as a production base *for cinema internationally*. Staged performance art has meanwhile been crossed off the list as potentially subversive because there is no script for someone in a government office to sit down and read.

Brigadier General George Yeo, arts and information minister, says bluntly that in a multicultural society, "for us, censorship is an indispensable condition for civilisation." The line should not be drawn so *narrowly as to stifle creativity*, and had been relaxed in recent years. But all he will say for the future is that there "may be a tightening in some areas and a loosening in others". Or, as depicted by Mr Tan: "It's two steps forward, one step back. It's also that in society at large."

Gordon Cramb



Members of the Navy march during National Day celebrations last August: Singapore budgets 6 per cent of its gross domestic product for defence



Tony Andrews

Raffles Hotel in Singapore, one of the most celebrated hotels in the world

Andrew Adonis assesses the move to reduce western influence and promote the indigenous culture

Determined trend towards Asian values

I assess western influence at 60 per cent, compared to the influence of core Asian values at 40 per cent. In 20 years ... the influence of the west on our lifestyles, foods, fashions, politics and the media will drop to 40 per cent and Asian influence will increase to 60 per cent.

Such is the prophecy of Mr Lee Kuan Yew, architect of modern Singapore, speaking earlier this month at a celebration to mark the lunar new year.

Still in government as "senior minister", Mr Lee is no voice from the past. His words reflect the determination of the Singaporean elite to promote "Asian" at the expense of "western" values, and reflect a wider regional debate about the existence of an Asian cultural frame of reference which is both different and superior to that of the west.

What do "Asian values" represent in a Singaporean context, and are they sharply distinctive from "western values"?

In such matters as food, dress, music, religion and sport, there is no sign that the balance between local and western influence is set to change much. Of the main cultural artefacts, language is the one subject to the most conscious attempt to "rebalance", under the pressure of the government's ardent "multilingual" policy.

Yet there is no intention to abandon English as the language of education and administration; and there are trends, such as the rise of an iconoclastic theatre fringe, which clearly veer in the pro-western direction.

However, when the Singaporean elite talks about "Asian values", its main concern is not normally with these outward forms. Rather, it is concerned to define itself against western liberalism, claiming the existence of a distinctly different set of underlying societal assumptions to do with behaviour and power.

The Michael Fay affair, ignited by the US reaction to a caning sentence imposed last year on an American youth, crystallised the debate. As one Singapore study of the Fay affair puts it, it was "ultimately about an era of rapid global change which could lead to the emergence of an alternative, if not a challenge, to the model of social and political rights epitomised by the US."*

"Asian values", in this context, are a set of precepts about the importance of family, discipline, community and nation. Beneath a tranquil scene of trees and lakes, the poster dominating the entrance foyer of Singapore's Ministry of Education features the five "shared values" inculcated in all Singaporean schools. These are:

- "Nation before Community and Society above Self."
- "Family as the basic unit of Society."
- "Community support and respect for the Individual."
- "Consensus not Conflict."
- "Racial and religious Harmony."

Few in the west would dispute the desirability of any but the first of these home truths. Even the first would not alienate "westerners" as a whole, but divide them in different ways. While the left might baulk at "nation before community", Baroness Thatcher – highly esteemed by Mr Lee – famously derided the notion of "society above self".

It is what these "shared values" do not comprise, notably any reference to "rights" or "democracy", which would arouse the western liberal conscience. Yet their status as core values is not so much a matter of debate between "the west" and "Asia" as a matter of debate within Singapore itself.

Singapore's main English daily newspaper gave prominent billing this month to a remark of India's chief election commissioner: "The public in India regards its democracy as gold, but somebody has put muck in it. Our democracy has become corrupt because our elections have been corrupted. And because our democracy has been corrupted, we have ended up with a culture of cash and criminality."

Not that the government questions the principle of democracy, with its accompaniment of free elections and the rule of law. Mr George Yeo, minister of information, argues that Asia is evolving "new forms of democracy", giving greater emphasis than the west to social obligations and the "strong moral underpinnings" required for democracy to function well. "Democracies which see only rights without obligations eventually destroy themselves."

Such arguments are held to justify a lesser emphasis on rights, freedom of expression, and the "Westminster model" of continuous partisan attack on those in power, and a greater emphasis on elite leadership, social discipline and accountability through consultation.

The balance nevertheless remains a matter of national debate. A government decision to liberalise cinema censorship was partially rescinded following an outcry from parents angry at the exposure of teenagers to "soft porn". When Singapore's Chief Justice announced last month that he favoured doubling the sentences of sexual offenders whose lawyers cross-examined their victims in a way felt by the judge to be "humiliating", there were immediate protests from the lawyers' association.

Nor is the voice of conventional western liberalism silent. A best-selling anti-government tract published last year by Dr Chee Soon Juan, entitled *Dare to Change*, is dedicated on its title page "to all the political detainees who struggled for democracy and all Singaporeans who long for openness, humanness and justice for our nation." It attacks "the political gargoyle of authoritarianism" and calls for a comprehensive welfare state, citing both Germany and South Korea as countries where extensive state welfare has gone hand-in-hand with economic success.

The more sophisticated proponents of "Asian values" do not claim that the values themselves are peculiar to Asia, but that they are rooted in a different social reality. As Professor Chan Heng Chee, director of the Singapore International Foundation and a former ambassador to the United Nations, puts it: "The values are universal, but the way those values are acted out in Asia is different." She cites "intense dependency on the extended family" as "a social reality which is vital to the Chinese, and not just a desirable social goal".

Professor Chan refines the argument still further, accepting that in some areas – such as family cohesion – Asians are essentially seeking to maintain standards which were once prevalent in the west, but have withered in recent decades. "Singapore is a late developer. We can go into the supermarket of advanced industrialised countries and choose what we want and don't want."

What do ordinary Singaporeans make of all this? For what it is worth, the busiest day for marriages in Singaporean history was February 14 this year – which happened to be both Valentine's Day and the last day of the Chinese New Year. The television news that night declared it "a double joy for hotels and restaurants, cashing in on all the extra business".

**Asad Latif, The Flogging of Singapore: the Michael Fay Affair.*

Kieran Cooke reports on the Suzhou development, near Shanghai

The Chinese connection

A new Singapore is rising in China. In February 1994 senior officials from Beijing and Singapore signed a wide-ranging agreement to develop a 70 sq km township incorporating industrial parks, residential housing and other facilities in Suzhou, about 80km west of Shanghai.

The new township, often referred to as "Singapore II", is modelled on developments in Singapore. The total cost of the project is put at US$20bn.

To date, 25 memoranda of understanding have been signed, committing US$850m to industrial projects in the new township. On site work is continuing round the clock. Singapore II's developers say that by April, less than a year after initial land clearance work began, the first factory will be ready for occupation.

The Suzhou township is the most ambitious scheme so far undertaken in Singapore's regionalisation drive. Eventually, it is planned to settle more than 600,000 in the town, which will have factories, shopping districts, hospitals and schools. In common with other projects both at home and overseas, the Singapore government, rather than the private sector, acts as the main driving force.

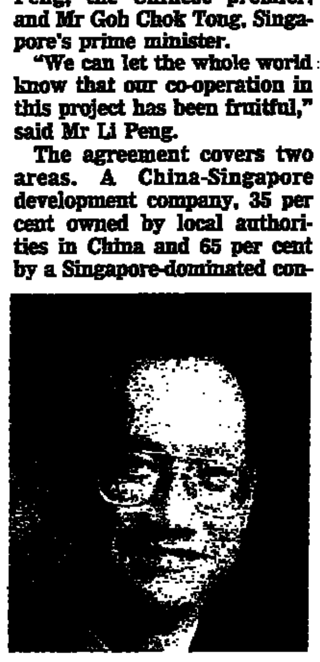
In 1992 Deng Xiaoping, the Chinese leader, gave his blessing to Singapore-style government. "Singapore enjoys good social order and is well managed," said Mr Deng. "We should tap on their experience and learn how to manage better than them."

The Singapore sales machinery, armed with Deng's imprimatur, swung into action. Mr Lee Kuan Yew and other Singapore leaders made a number of well-publicised visits to China. Singapore policy on a number of issues, including the future of Hong Kong, has become closely aligned to China.

Both governments pledged their full support to the Suzhou project in an agreement reached in Beijing early last year. Mr Lee signed on behalf of Singapore. Mr Li Lanqing, China's vice-premier, signed for China. Also present at the ceremony were Mr Li Peng, the Chinese premier, and Mr Goh Chok Tong, Singapore's prime minister.

"We can let the whole world know that our co-operation in this project has been fruitful," said Mr Li Peng.

The agreement covers two areas. A China-Singapore development company, 35 per cent owned by local authorities in China and 65 per cent by a Singapore-dominated consortium of companies, is developing and marketing the project. The second part of the agreement is on a government-to-government basis.



Lim Chee Onn: "My best salesman is Lee Kuan Yew"

Sim Kee Boon, chairman of Keppel, spearheading operations

Under a so-called "software" package, Singapore has agreed to transfer its planning expertise and knowhow to the Chinese. These days Singapore serves as a training laboratory for China: teams of Chinese officials arrive in Singapore virtually every day. They are seconded to government departments, high-tech industries and government-linked companies.

In the process of this technology and knowhow transfer, Singapore aims to make the connections vital to winning further contracts in China. "If we transfer this asset over seven to 10 years, it will be useful to them and in the process we will get to know them well at different levels; that's the trade-off," says Mr Lee.

There are now 20 companies involved in the foreign component of the consortium developing the new Suzhou town. They include Samsung, the South Korean conglomerate, and the Singapore arm of the Salim group, Indonesia's biggest company controlled by Indonesian Chinese businessman Mr Liem Sioe Liong. Singapore government-linked companies and the Salim group are partners in developing the Batam industrial park in Indonesia. They are also joint partners in other projects in China.

Keppel, the diversified Singapore group that is 35 per cent owned by the government, is spearheading operations. Mr Lim Chee Onn is the Singaporean chairman of the Suzhou development company.

"The government-to-government contacts at the highest level were vital in getting this project off the ground," says Mr Lim. "My best salesman has been Lee Kuan Yew."

Mr Lim says that the international response to the Suzhou township has been very positive. Investors so far committed to the venture include Samsung, three US companies involved in electronics and medical supplies manufacturing, and Lion Nathan, the New Zealand based company which plans to invest more than US$200m in a brewery in the township.

The Suzhou township has preferential tax and tariff rates. One hundred per cent foreign ownership is allowed. Manufacturers will also be able to sell into the domestic market. Land costs about US$50 a sq metre – considerably less than in Pudong, the economic zone being developed in neighbouring Shanghai. (At one stage Singapore developers were keen on being involved in the Pudong project but pulled out for unspecified reasons.)

Mr Lim says Suzhou will not rival Pudong but support developments in Shanghai. While Pudong will concentrate on trade and financial services, Suzhou will be more industrial. Plans are for Suzhou to produce auto parts to feed Shanghai's growing car industry. Suzhou will also have food processing and pharmaceuticals industries.

There are risks involved in the project. Changes in the Chinese leadership could influence developments in Suzhou. Rivalries between various local groups are always a problem in China.

"Everyone, from the top down in the Chinese leadership, has put on record that this project will be allowed to happen," says Mr Lim. "It is a unique experiment and a national project for the Chinese."

Investors in China complain that business is hampered by an inadequate legal framework. Mr Lim says this is a delicate issue. "We have to teach them how to be more pro-business. In Singapore we have a system which has evolved over 25 years. If they want to telescope development, then the preconditions have to be set. Doing the on-site physical work is relatively easy. But other factors, such as ensuring transparency and a proper legal framework, are more difficult and sensitive."

But while the lack of clear legal guidelines can be a problem, there are some pluses. "There is a flexibility in the system which allows us to continue with our work and not wait for various licences and other documents to be approved," says Mr Lim. "If we did that sort of thing in Singapore, we'd probably be in jail."

The champion must stay on top

Continued from Page 1

ment's refusal to internationalise the Singapore dollar. Its cash-rich government companies lack the entrepreneurial talent to compete with their more fleet-footed rivals in Hong Kong and Taiwan.

The island has benefited from its position at the heart of the dynamic south-east Asia region. A small dot on the regional map, it treats its neighbours with the utmost delicacy. But a succession crisis in Indonesia or Malaysia could affect Singapore's economic fortunes.

Singapore has been at the forefront of promoting what it considers to be Asian values. On one hand, this can be interpreted as an attempt to build regional consciousness and establish a common bond between the countries of East Asia. Community before self and the importance of the family are seen as central to Asian values.

But an antipathy towards the west forms another part of the argument. Western governments and the western media are constantly accused by Singapore's leaders of trying to impose their will and their values on the island republic. The dark hand of conspiracy, ready to sabotage the country's progress, never seems to be far away.

The government says censorship and other forms of control are necessary to siphon out influences which might destabilise Singapore. Critics say that it is precisely such controls and the government's antagonism to outside ideas which threatens the country's future. Creativity will be lost: mediocrity will be the result.

Though Singapore is one of the world's shipping and aerospace hubs, it remains a parochial, self-absorbed island.

Mr Lee Kuan Yew has no doubt that the world is entering a new era in which the growing economic power of East Asia, with Singapore as one of its focal points, will lead to a decline in western influence. Asian values – which in Mr Lee's view assume a very Chinese identity – will come to the fore.

"Asians will regain their self-confidence," says Mr Lee.